# Work of the Special Committee on Research Program

Stephen A. Zeff

*Accounting Historians Journal*
Vol. 28, No. 2
December 2001

Stephen A. Zeff
RICE UNIVERSITY

# THE WORK OF THE SPECIAL COMMITTEE ON RESEARCH PROGRAM

*Abstract*: This article begins by recounting the circumstances that led to the AICPA's decision in 1957 to appoint a special committee to recommend a stronger research program to support the process of establishing accounting principles. It then proceeds to examine in depth the committee's sometimes difficult deliberations that eventually led to a unanimous report, in which it recommended the creation of an Accounting Principles Board and an enlarged accounting research division within the Institute. In the course of the article, the author brings out the strong philosophical differences among several of the Big Eight accounting firms that had been impeding the work of the Committee on Accounting Procedure and that also intruded into the Special Committee's deliberations.

## INTRODUCTION

One of the major junctures in the process of establishing accounting principles in the United States occurred in 1957-59.[1] After almost 20 years of experience with the Committee on

**Acknowledgments:** I am grateful to Art Wyatt, George Catlett, Chuck Horngren, Oscar Gellein, Dick Brief, Tom Dyckman, Marc Epstein and Bob Mautz for comments on earlier drafts. Mautz is the lone surviving member of the Special Committee. They are not responsible, however, for the contents of this paper.

[1]Prior to the 1970s, what is today known as "standard setting" was characterized as the establishment of accounting principles. In 1970, the Institute of Chartered Accountants in England and Wales set up the Accounting Standards Steering Committee, which began issuing Statements of Standard Accounting Practice (in succession to Recommendations on Accounting Principles). In 1972, the American Institute of Certified Public Accountants created the Financial Accounting Standards Board (in succession to the Accounting Principles Board), which began to issue Statements of Financial Accounting Standards. With the inception of these two new bodies, the term "standard setting" entered the profession's vocabulary.

Submitted April 2001
Revised August 2001
Accepted October 2001

Accounting Procedure,[2] there was increasing criticism of the committee's inability to secure agreement on the most difficult problems, including accounting for changing prices, business combinations, deferred taxes, and pensions. The leadership of the American Institute of Certified Public Accountants (Institute, AICPA) believed that a new approach was needed, one that placed more emphasis on research into the fundamentals of accounting as a means of facilitating an agreement on particulars. In December 1957, the Institute created a blue ribbon panel known as the Special Committee on Research Program in order to recommend a new approach. The Committee's report, which was issued nine months later, led to the establishment in the following year of the Accounting Principles Board (APB).

No previous study has reported on the deliberations of the Special Committee, which was composed of strong-willed leaders of the profession, including the outspoken managing partner of Arthur Andersen & Co., Leonard Spacek, who was the most vociferous critic of the Committee on Accounting Procedure. It is the objective of this article to relate the Special Committee's deliberations in a way that brings out the strong philosophical differences among the members. As standard setting for financial reporting continues to evolve, both at the national and international levels, a study of the deliberations leading to the setting up to the predecessor of the Financial Accounting Standards Board may provide readers with an understanding of the dynamics of change when moving from one regime to its successor.

The author possesses a file of the minutes of the Special Committee's meetings, together with correspondence among the members, and most of the contents of this article, including

[2]From 1939 to 1957, the Committee on Accounting Procedure issued 48 numbered Accounting Research Bulletins, of which eight were reports prepared by the Committee (or Subcommittee) on Terminology between 1940 and 1949. Bulletin No. 43, issued in 1953, was a restatement and revision of the previous 40 Bulletins dealing with accounting principles. In the same year, the Committee on Terminology issued a review and résumé of the eight Bulletins dealing with terminology. For all of the Bulletins and reports of the Committee on Terminology issued between 1953 and 1959, see *Accounting Research and Terminology Bulletins, Final Edition* [1961]. For all of the Bulletins issued between 1939 and 1952, see Zeff and Moonitz [1984, vol. I]. When, as will be brought out in this article, the Special Committee on Research Program recommended the establishment of an Accounting Principles Board, it was intended that the board replace both the Committee on Accounting Procedure and the Committee on Terminology. The work of the Committee on Terminology will not be treated in this article, as it was noncontroversial.

several quotations, are derived from this file.[3] This article begins with a discussion of the events and developments that collectively precipitated the creation of the committee and continues by turning to the Committee's sometimes tense deliberations and exchanges of correspondence that led to its report filed in September 1958. It ends with the appointment of the members of the new APB, which itself was not devoid of controversy.

## CREATION OF THE COMMITTEE[4]

The Special Committee on Research Program was established in December 1957 as a direct consequence of a major address given two months earlier by Alvin R. Jennings, the managing partner of the Big Eight firm, Lybrand, Ross Bros. & Montgomery (LRB&M), at the Institute's annual meeting held in New Orleans. Jennings was the incoming president of the Institute. In his address, "Present-Day Challenges in Financial Reporting" [1958a], he gave voice to a growing unease among leaders in the profession with the functioning of the Committee on Accounting Procedure (CAP), which had been issuing a series of Accounting Research Bulletins since its establishment in 1938/39. In particular, he was critical of the committee for sometimes acting too quickly under pressure and of "the difficulty which exists in reversing positions previously taken" [ibid., p. 33].

Jennings expressed disappointment that the effort by the Institute's research staff to develop a "procedural method" for obtaining the views of industry spokesmen had not succeeded.[5] Some of the fault, he said, "rests largely upon a failure of industry to acknowledge in any major sense its own obligations, and a disposition to interpret leadership by the Institute as an indication of willingness to assume full responsibility" [ibid., p. 31]. For its part, the Controllers Institute of America (shortly to be

---

[3]I am immensely grateful to the late Leonard Spacek for providing me with this file in 1970, which may be the only survivng record of the Committee's minutes and correspondence. I am also grateful to Price Waterhouse and Deloitte Haskins + Sells (as they were then known) for supplying additional files of correspondence in 1981.

[4]The discussion in this section draws in part on Zeff [1972, pp. 129-171] and Zeff [1984, pp. 459-462].

[5]Curiously, the managing director of the Controllers Institute has written that, in January 1957, there were "several signs of a growing closer relationship between the two Institutes" [Haase, 1971, p. 176].

renamed the Financial Executives Institute) complained from time to time that its members were not being adequately consulted. The Institute's executive committee, however, had never appointed any industry representatives to the CAP. Its 21 members were drawn from the ranks of public accounting practitioners (including representatives from all of the major firms) and from two to four academics. All of the committee members had to be Certified Public Accountants. This was an era when leaders of the Institute regarded CPAs in industry as having "left the profession."[6]

Jennings proposed that the Institute consider setting up a small, full-time research organization whose function "generally should be to carry on continuous examination and re-examination of basic accounting assumptions and to develop authoritative statements for the guidance of both industry and our profession" [ibid., p. 32]. To Jennings, a practitioner, "Development of accounting principles should be regarded as in the nature of pure research," and it was needed to keep up with "the economic and social changes which affect accounting and financial reporting" [ibid.]. To him, staffing the research organization meant, ideally, finding "five or six Carman Bloughs"[7] [ibid., p. 33]. It should consult widely and solicit informed views from interested parties, including industry, the accounting profession, the teaching profession, and representative of regulatory bodies. The cost of the research organization should be shared "in equitable proportions" by industry and the profession. Probably his most controversial suggestion was that the basic ideas contained in the statements issued by the research organization should be presented to the Institute's Council for

[6]The Institute was slow to bring non-practicing members into positions of importance, let alone leadership. It was not until 1998 that its first elected chairperson came from outside of public accounting. By contrast, the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants in England and Wales named their first president from outside of public accounting in 1945 and 1968, respectively.

[7]Carman G. Blough was a onetime accounting academic, the first SEC chief accountant (1935-38), a manager and partner in Arthur Andersen & Co., an early member of the Committee on Accounting Procedure (1938-42), and the Institute's full-time director of research since 1944. As director, he supervised a small research staff, which serviced the CAP and also many other Institute committees, and, since 1947, he wrote a monthly column in *The Journal of Accountancy* in which he dispensed his wisdom and views on accounting and auditing issues of interest to practitioners of all stripes. Through his column, he acquired a towering reputation as the ultimate authority on such matters [Moonitz, 1982].

approval or rejection, and that any bulletins approved by a two-thirds majority of Council "should be considered binding upon members of our Institute" [ibid., p. 32].

Jennings had issued the challenge. He was aware of the desire by the Securities and Exchange Commission (SEC) that the CAP make progress in adopting "definite rules" [King, 1951, p. 43], and he also was sensitive to the series of hard-hitting speeches by Leonard Spacek, the managing partner of Arthur Andersen & Co., in which he charged that financial statements were misleading because they reflect "the application of antiquated accounting principles" [1956a, p. 1] and do not reflect the "true impact of business transactions" [1956b, p. 10]. Spacek also argued that comparability was impaired by the use of alternative accounting principles, and that the profession and the Institute had abdicated their responsibility to the public by not addressing these problems.[8] In a speech made in January 1957, Spacek argued that "The profession has not exhibited the independence and ability which the public is entitled to expect" [Spacek, 1957a, p. 24]. In the words of John L. Carey, the Institute's long-time executive director, Spacek accused the CAP of:

> yielding to industry pressure on an important principle without public discussion. He criticized the committee also for failing to issue bulletins in the face of substantial internal dissent. Finally he impugned the motives of members of a special committee of the Institute appointed to investigate and report on divergencies between generally accepted principles of accounting and the accounting practices prescribed for railroads by the Interstate Commerce Commission [Carey, 1970, p. 77].

Spacek's criticism of the behavior of the two Institute committees was reported in the press, and his criticism of railroad accounting practices triggered a Congressional hearing [*Railroad Accounting Procedures*, 1957].

It was unheard of for a major figure in the accounting profession to direct public criticism at the profession or the Institute, and the leaders of the Institute were shocked.[9] The

[8]For most of Spacek's collected speeches from that period, see *A Search for Fairness* [1969, pp. 1-59]. For a further discussion of Spacek's series of critical speeches, see Carey [1970, pp. 74-80] and Previts and Merino [1998, pp. 310-311].

[9]Interview with George R. Catlett, retired partner in Arthur Andersen & Co., October 21, 1999. Catlett was a longtime close colleague of Spacek's in the home office of Arthur Andersen & Co.

Institute's executive committee, with the evident support of Carey, immediately authorized President Marquis Eaton to take the extreme step of appointing a special committee to investigate Spacek's accusations. The special committee completed its inquiry with dispatch, and in its report dated April 17, 1957, a scant six weeks after its appointment, it found that the Institute committees had not yielded to improper influences [Report of Special Committee, 1957]. If Spacek earlier had little confidence in the leadership of the Institute, by the Spring of 1957 he had become embittered toward the Institute. In a letter to the Institute, Spacek took exception to the special committee's conduct of its investigation as well as with the reasoning in its report [Spacek, 1957b].

The Institute's leadership was determined to take the report of the special committee even further. It then proposed to Council that the Institute expel Spacek from membership, but the effort failed [Spacek, 1989, pp. 242-243]. Thereupon, the Institute apparently led an unsuccessful effort to get at Spacek through the Illinois Society of Certified Public Accountants [ibid., pp. 243-244]. For his part, Spacek threatened to pull Arthur Andersen & Co. out of the Institute [ibid., p. 237]. He viewed Carey as an apologist for permissiveness on accounting principles [ibid., pp. 38-39], which he also associated with several of the Big Eight firms based in New York City. For his part, Jennings responded to Spacek's public accusations by asserting in his address that "Criticisms which suggest that the profession on any widescale basis has lost its independence . . . are baseless" [Jennings, 1958a, p. 33]. The Institute's leadership wanted to rein in Spacek, and this may have been a major factor behind Jennings' call for a new approach.

But Spacek continued his crusade. In an August 1957 speech to the American Accounting Association (AAA), he advocated establishment of a "court of accounting principles" within the Institute, which was also reported in the press. In that speech, he contended that "Our present American Institute Bulletin method is seriously lacking as to the reasoning and the criteria on which the opinions are based" [Spacek, 1957c, p. 34]. Spacek believed that the [legal] case method should be used so that "not only the accounting profession, but also industry, government, teachers, and students will know the views that prevail [on accounting principles] and why they prevail" [ibid.]. More important, he argued, "We now have no satisfactory method of challenging what are presently regarded as accepted principles of accounting" as well as determining which new principles should be adopted and which alternative principles should be eliminated [ibid.]. As criteria for making such determinations, he believed it was essential that premises and objectives be developed and agreed upon.

Another factor that might explain Jennings' proposal was the increasing belief that the AAA, a body composed primarily of accounting academics, had been stealing the Institute's thunder in establishing accounting principles [see Storey, 1964, pp. 40-52]. In 1936, 1941 and 1948, the AAA had published a series of statements of accounting principles [*Accounting and Reporting Standards*, 1957], which the SEC's chief accountant would sometimes cite as authoritative support in his speeches and in his section in the Commission's annual report to the Congress [see, e.g., Blough, 1937, p. 30; Werntz, 1946, p. 35; King, 1948, pp. 52-53; Zeff and Moonitz, 1984, vol. II, pp. 202, 252]. The AAA's 1940 monograph by Professors W. A. Paton and A. C. Littleton, *An Introduction to Corporate Accounting Standards*, which was issued as an elaboration of the 1936 statement, was widely quoted and cited by practitioners and used by accounting academics in their university courses. The AAA published a series of eight "supplementary" principles statements on specific accounting topics between 1951 and 1955, and in 1957 it issued a revision of its 1948 statement. William W. Werntz, the current chairman of the CAP, lauded the 1957 statement in an article in *The Journal of Accountancy* and contrasted the series of "integrated" AAA principles statements with the output of his own committee, which, he wrote, had "chosen to express its views only on certain aspects of accounting as the occasion presented itself" [Werntz, 1958, p. 33]. The CAP had several times decided against developing and publishing a statement of fundamental accounting principles, and instead, composed mostly of practical men, preferred to take up accounting issues as they became pressing.

In 1955 and 1956, moreover, the AAA had published three research studies on price-level changes and financial statements [Jones 1955, 1956; Mason, 1956], which attempted to get to the heart of the theoretical and practical problems of recognizing the effects of inflation in financial statements. This subject was one on which the CAP was unwilling to issue a Bulletin in the mid-1950s, once the antipathy of the SEC's accounting staff toward such reform had become known [Zeff, 1972, pp. 155-157, 165-166; and see below].

Even George O. May, the former senior partner of Price Waterhouse & Co. and the lion of the profession, expressed the belief in 1958 that the Institute had been falling behind the AAA:

> The American Accounting Association from the time of its first pronouncement has sought to relate specific provisions to a broad concept. It would seem that the Institute must successfully undertake a similar task before it can claim with reason to be either the leading authority or one of the leading authorities upon the subject [Grady, 1962b, p. 278].

One can therefore understand why Jennings placed emphasis on "pure research," by which he meant "continuous examination and re-examination of basic accounting assumptions. . ." [Jennings, 1958a, p. 32; see also Jennings, 1958b].

But perhaps the most compelling reason for a change of approach was the persistent unwillingness of the CAP to make difficult choices on controversial topics. The committee members were apparently loathe to declare that certain accounting practices that had achieved a degree of acceptance were no longer includible among "generally accepted accounting principles" (GAAP), which was the profession's code terminology for proper practice. Even though the opinions expressed in the CAP's Accounting Research Bulletins were not binding on members of the Institute[10] (which was, after all, a voluntary association of CPAs licensed by the states), the committee knew that the SEC's accounting staff was inclined to enforce compliance with its opinions. But, as Carey wrote, "except as the SEC or the New York Stock Exchange insisted on compliance, individual companies and auditors were at liberty to deviate if they chose to assume the burden of justifying their departure" [1970, p. 88]. Although housed within the Institute, the CAP was effectively a creation inspired by the SEC, whose chief accountant had made it clear in 1937 that the accounting profession should take the initiative "to develop uniformity of procedure," lest the Commission do so itself [Blough, 1938, p. 190].

In the 1940s and especially in the 1950s, it became evident that three fundamental differences among the members mili-

---

[10]Accounting Research Bulletin No. 43 [Committee on Accounting Procedure, 1953, p. 9] stated rather ominously that "the burden of justifying departure from accepted procedures, to the extent that they are evidenced in committee opinions, must be assumed by those who adopt another treatment." An almost identical *caveat*, but omitting the passage set off in commas, appeared in most of the other Bulletins.

tated against agreement within the CAP. There was a profound difference between several of the major firms over whether a desirable goal was eventual "uniformity" of practice among companies, or instead a diversity of practice that would allow company managements to choose the accounting methods that, in their view, most suit their circumstances [see Carey, 1970, p. 88]. This was the "uniformity" v. "flexibility" debate that veritably exploded into the literature in the early and middle 1960s [see, e.g., "Uniformity in Financial Accounting," 1965].[11] Arthur Andersen & Co. (AA), which had a significant client base in the regulated public utility field [Spacek, 1989, pp. 8-9], was the foremost advocate of "uniformity" [ibid., pp. 38-43; Carey, 1970, p. 127], while Price Waterhouse & Co. (PW) and Haskins & Sells (H&S) were the two leading defenders of flexibility. The latter two firms believed that the choice of accounting methods should be tailored to the circumstances of individual corporations [see, e.g., May, 1943, pp. 183, 251; Kracke, 1947; Gellein, 1957, p. 91; Powell, 1964, pp. 40-41; Bevis, 1965, pp. 21-22; Keller, 1965, p. 648].

The second fundamental difference turned on the authority that the CAP possessed to impose significant changes on accounting practice. There was a philosophical split among the major firms over the committee's proper role in "forcing" a narrowing of accounting alternatives, as opposed to a more "empirical" approach of cataloguing generally accepted practices. AA wanted there to be a strong hand to change practice,[12] while PW and H&S did not see that as being within the committee's province [see Devore, 1958, p. 122; Powell, 1964, p. 40], as will be seen below. The views of the other major firms were less diametrically opposed. This issue, together with the debate over uniformity v. flexibility, were undercurrents that periodically surfaced in the phrasing of qualified assents or dissents in several of the CAP's more controversial Bulletins.

The third fundamental difference was over the primacy of conventional historical cost versus current value accounting or general price-level accounting in the financial statements, especially as regards the measurement of depreciation expense. Views within the CAP on conventional historical cost account-

[11]For an editorial and four articles on the subject, see the April 1961 issue of *The Journal of Accountancy*.

[12]Spacek advocated a "court of accounting principles" because he viewed the CAP as not being up to the task [Spacek, 1957c].

ing[13] versus general price-level accounting or a form of current value accounting were disparate, and the few efforts within the committee to advance the cause of current value accounting were rebuffed by the SEC, which was an arch defender of conventional historical cost accounting in the determination of net income [see, e.g., Zeff, 1972, pp. 155-157; Walker, 1992]. Of the major firms, AA was the principal advocate of general price-level accounting or current value accounting [Spacek, 1956a; 1956b].[14] Within PW, it depended on the partner.[15] During the 1950s, Garrett T. Burns, the AA representative on the CAP from 1953 to 1959, led an effort to issue a Bulletin in favor of the upward revaluation of assets, but, in the end, a negative signal from the SEC's chief accountant scuttled his initiative.[16]

Alvin Jennings evidently believed, with Oliver Wendell Holmes the elder [1891, p. 11], that a consensus on the particulars would come more easily once they could be traced to the basic assumptions, or "*ultimata* of belief," on which they depend. In early December, the Institute's executive committee accepted Jennings' challenge and set up "a committee of the Institute to study a new approach to accounting research, as stated in the letter of invitation."[17] The letter continued: "The executive committee believes that the problem deserves and requires intensive study by a committee of distinguished members, representing so far as possible the various points of

[13]"Conventional historical cost accounting" is intended to describe historical cost accounting without a restatement for the changing purchasing power of the dollar.

[14]Not all AA partners favored current value. Paul K. Knight, in AA's New York office, who represented AA on the committee from 1942 to 1953, did not seem to be an advocate. Knight assented to Accounting Research Bulletin No. 33, "Depreciation and High Costs" [Committee on Accounting Procedure, 1947] and to a reaffirming letter from the CAP in 1948. Both utterances opposed departures from historical cost in the body of the financial statements.

[15]By the end of the 1940s, the retired but still very active George O. May came to believe that conventional historical cost accounting was deficient, yet John B. Inglis, PW's representative on the CAP during its busy period from 1945 to 1951, was a conventional historical coster [see Inglis, 1974, p. 111; Grady, 1978, p. 324]. May, as well as senior PW partners Paul Grady and (to a lesser extent) Percival F. Brundage, came to favor the use of general price-level adjustments, either combined with historical cost in the body of the financial statements or in a supplementary disclosure [see May, 1949, pp. 66-68; Grady, 1952; Brundage, 1951, p. 114].

[16]Minutes of the meeting of September 25-26, 1958 of the Committee on Accounting Procedure, pp. 4-5. The chief accountant at the time, Andrew Barr, placed his views on public record [see Barr and Koch, 1959, p. 182].

[17]Letter from John L. Carey to the ten invited members of the committee, dated December 11, 1957.

view of practicing accountants, and of industry, the academic world, and the investing public." This was an unprecedented breadth of membership for an Institute committee dealing with accounting principles. It acknowledged, perhaps for the first time, that representatives of industry and the investing public should have a voice in the establishment of principles. It was made clear in the letter that Institute President Jennings wished "to emphasize the fact that the scope of the committee's activity is not to be restricted to a consideration of his proposal. Rather it is hoped that the committee will make an independent approach to the basic problems to which Mr. Jennings was attempting to point out at least one possible means of solution." The suggested title of the committee was "Committee to Study a New Approach to Accounting Research."

## COMPOSITION OF THE COMMITTEE

Jennings chose Weldon Powell, the senior technical partner in the New York executive office of H&S, as chairman of the committee. Powell had been serving on the Committee on Accounting Procedure since 1954. He was a member of the "gradualist" school, which favored an evolutionary change in accounting principles and methods, with considerable discretion being given to company managements to choose the methods most responsive to their circumstances [see, e.g., Powell, 1965a, 1965b]. He was highly respected for his thoughtful manner and principled views, and he was "an acknowledged authority on accounting theory" [Carey, 1970, p. 92]. The other members invited to serve, all of whom accepted, were as follows:

Andrew Barr, the SEC chief accountant.
Carman G. Blough, the Institute's director of research.
Dudley E. Browne, comptroller of Lockheed Aircraft Corporation, Burbank, California.
Arthur M. Cannon, vice president and treasurer, Standard Insurance Co., Portland, Oregon.
Marquis G. Eaton, senior partner in Eaton & Huddle, San Antonio, Texas.
Paul Grady, partner in the New York executive office of PW.
Robert K. Mautz, professor of accounting, University of Illinois.
Leonard Spacek, managing partner of AA, Chicago.
William W. Werntz, partner and member of the board of directors of Touche, Niven, Bailey & Smart, New York.

Alvin Jennings, as Institute president, was a member *ex officio* of the committee. One supposes that Barr was regarded as the representative of "the investing public" on the committee. All of the committee members were CPAs.

It was, as Carey wrote, a "high-powered committee" [1970, p. 93], composed of strong personalities. Andrew Barr had to obtain the Commission's approval to be able to serve on the committee: it was the first time that a sitting SEC chief accountant became a member of an Institute committee. Obviously, the work of the Special Committee was important to Barr and to the Commission. Both Carman Blough and William Werntz had been SEC chief accountants, and Werntz was in his second year as chairman of the Committee on Accounting Procedure.

Carman Blough, the Institute's director of research, and his small staff had been servicing the Committee on Accounting Procedure (as well as many other Institute committees) since 1944, and his name was printed on every Accounting Research Bulletin since No. 25, which was issued in April 1945. Since 1947, he had been writing a column in the monthly *Journal of Accountancy*, in which he presented his views on what constituted proper accounting and auditing practice. Blough was the profession's most respected authority on "generally accepted accounting principles" [see Carey, 1970, p. 87; Moonitz, 1982].

Dudley Browne was probably the first member from industry to serve on a high-level Institute committee, and he was there to forge a stronger link between the Institute and the Controllers Institute of America. Browne was board chairman and immediate past president of the Controllers Institute. During his presidency, Browne did much to improve relations between the two Institutes, especially on accounting principles [Haase, 1971, p. 176]. But there was still the feeling that the Controllers Institute was on the "outside" of the process by which accounting principles were established.

Arthur Cannon was a surprise choice. He had been an accounting professor at the University of Washington for some ten years prior to becoming an executive in an insurance company in Portland, Oregon. He wrote numerous articles, was an energetic and a persuasive speaker, and had been a vice-president of the AAA and president of the Washington State Society of CPAs. In addition, he had ably edited *The Accounting Review*'s book review section from 1950 to 1957, and in 1954 he launched *The Journal of Accountancy*'s lively and excellent "What to Read/Current Reading." It was in this last capacity that Cannon would have come to the attention of John L.

Carey, the Institute's powerful executive director and publisher of the *Journal*. But it was probably Perry Mason, Blough's assistant at the Institute, who recommended Cannon for the committee. Some years earlier, Cannon had spent a year at the University of California, Berkeley, in an aborted start for a Ph.D. Mason was then a professor on the Berkeley faculty, and he was impressed with Cannon.[18] At 46, Cannon was the second youngest member of the committee.

Marquis Eaton was the immediate past president of the Institute, and he was widely admired and applauded for his innovativeness and leadership in that office [Carey, 1970, pp. 294-296]. Unfortunately, he died suddenly on February 23, 1958. The executive committee did not appoint a successor.

Paul Grady was a protégé of George O. May, the doyen of the profession and former senior partner of PW [see Grady, 1962b]. Under Grady's leadership in the mid-1940s, the Institute's auditing procedures committee issued the first authoritative statement of "generally accepted auditing standards." Like Powell, Grady was a member of the "gradualist" school on accounting principles [see Grady, 1965, esp. pp. 32-34]. Grady was formerly a partner in Arthur Andersen & Co. and was the founding partner's choice as his successor. But Grady and Arthur E. Andersen had a falling out, and he was dismissed from the firm in 1942. At that time, Leonard Spacek was also a rising partner in the firm [Grady, 1978, pp. 55-56; *A Vision of Grandeur*, 1988, pp. 77, 79], and apparently subsequent relations between the two were tepid.

Robert Mautz was a prolific author on accounting and auditing and had chaired the committee that prepared the 1957 revision of the AAA's series of statements on accounting principles [see Mautz, 1957]. It was probably because of this latter role that he was named to the committee. At 42, he was the youngest member of the committee.

Leonard Spacek would have been the most controversial appointment to the committee. He had never before served on an Institute committee, and in speeches and articles he had been assailing the accounting profession and the Institute over the lack of definition of accounting principles. As noted above, the Institute had less than a year earlier convened a special

[18] E-mail message from Loyd Heath, dated December 20, 1999, and telephone interview with Kermit O. Hanson, July 22, 2000. During that general period at the University of Washington, Heath was a member of the accounting faculty and Hanson was the dean of the school of business administration.

investigative committee to look into allegations of improper behavior by members of two Institute committees, a charge leveled by Spacek in a speech to a chapter of the Controllers Institute. Carey reported that "A wave of indignation greeted this speech" [1970, p. 77]. But Jennings wanted Spacek on the committee so that his criticisms would be channeled toward constructive change, and also that he would become a party to whatever reform was reported out of the committee. Like Arthur E. Andersen before him, Spacek wanted nothing to do with the Institute, but Jennings, whom Spacek came to respect, persuaded him to accept the invitation.[19]

William Werntz, a lawyer, had joined the SEC's legal staff in 1935 and served as chief accountant from 1938 to 1947, when he joined the newly formed public accounting firm of Touche, Niven, Bailey & Smart, in New York, and then became a CPA.

Several of the committee members had some salient experiences in common. Barr, Grady and Powell had been classmates at the University of Illinois and had studied under Professor A. C. Littleton, who was a staunch defender of historical cost accounting and an exponent of inductively deriving theory from regularities in practice [see Littleton, 1961].[20] Mautz also was a student of A. C. Littleton's, but some 15 years later. The University of Illinois' department of accountancy has, for many years, been reputed as having one of the best bachelor's and master's programs in the country [Bedford, 1997, pp. ix, 50-51], and quite a few leaders of the accounting profession were educated there. Moreover, Barr, Blough, Cannon, Grady, Powell and Werntz had all been tapped by the AAA to serve as vice presidents, and Blough also had served as AAA president. Beginning in 1945, the AAA had a policy of electing one non-academic vice president each year in recognition of his achievements in the profession. At the time of his vice presidency, Cannon was a full-time academic. In addition, Barr, Blough and Werntz had been accounting instructors for short periods early in their careers. Finally, four of the committee members had seen service on the Committee on Accounting Procedure: Blough (1938-42), Eaton (1945-46), Powell (since 1954), and Werntz (since 1950). It is worthy of note that Blough

---

[19]Interview with George R. Catlett, October 21, 1999.

[20]Grady's and Powell's writings clearly indicate that they subscribed to Littleton's inductive approach. See, e.g., Grady [1962a, pp. 46-47] and Powell [1961, p. 29].

 

was involved with the committee as either a member or the principal staff liaison for all but two years of its history as the issuer of Accounting Research Bulletins.

By contrast to the inductive derivation of principles that marked Grady's and Powell's thinking, Spacek strongly believed that accounting principles should be derived deductively from "objective standards" [see Spacek, 1958b, pp. 81, 82; 1958c, p. 91] and, as will be seen, this difference of view between him and Powell would later cause friction. Spacek was the only committee member, apart from Eaton, without a university degree. A blunt-spoken Midwesterner, he did not mix well with the profession's New York establishment.

## THE COMMITTEE REPLIES TO POWELL'S QUESTIONNAIRE

In a letter dated January 9, 1958, Weldon Powell, the chairman, wrote to the other nine members of the committee to lay out the plan of work. He suggested that they do some preparatory work, by reading Jennings' address (1958a) and four recently published articles:

Samuel J. Broad's "Applicability of Accounting Principles" [1957],
Marquis Eaton's "Financial Reporting in a Changing Society" [1957],
Oswald W. Knauth's "An Executive Looks at Accountancy" [1957],
and
May's "Generally Accepted Principles of Accounting" [1958].

He also distributed the typescript of Leonard Spacek's "accounting court" address of August 1957 [Spacek, 1957c].

In order to learn how professional bodies in different fields carried out research, Powell then asked several of the committee members to "direct inquiries to a few other organizations interested in research" and report back on their experience. The organizations were the American Enterprise Institute (on which Barr was to report), the American Accounting Association (Cannon), the National Bureau of Economic Research (Grady), and the Practicing Law Institute (Werntz). Powell said he would prepare a report on the National Industrial Conference Board. (In the event, only a few of these reports were completed and circularized to the committee.)

Powell called on Blough to "summarize for us the history of the Committee on Accounting Procedure — its genesis, its accomplishments, its shortcomings, its present position, and so on." He also asked the members to consider whether the committee should canvass the views of accountants, businessmen, lawyers, educators, people in government, labor leaders, and others. He said that Perry Mason (a former academic), who was the Institute's associate director of research, would service the committee. Finally, he said he would propound a list of questions "to find out the extent to which there is a consensus, or lack of it, among us on some of the fundamental issues involved in the development and application of accounting principles."

In a second letter written the following day, Powell asked the members to give their views on the following 13 questions by February 1, which are reproduced below, *verbatim*, from his letter:

1. To what extent do you think that accounting is essentially utilitarian in nature?
2. How important do you think it is that there be uniformity of accounting principles among business corporations?
3. Do you think that it is practicable to enforce uniformity of accounting principles among business corporations?
4. Do you consider uniformity of accounting principles among business corporations to be more important or less important than consistency in the application of accounting principles by each of such corporations?
5. To what extent do you believe that adequate disclosure by each business corporation of the accounting principles followed by it is an acceptable substitute for uniformity among business corporations?
6. If you favor the promotion of uniformity among business corporations, what agency or combination of agencies do you think should have the primary responsibility for it? (Some possibilities are state governments, through uniform statutes, the SEC, the Internal Revenue Service, the courts, an organization of stock exchanges, an organization sponsored by corporate managements, an organization of professional accountants, an organization of educators, and an organization including representatives of some of these groups and of labor unions and the public.)

7. Do you think that [an] organized effort to develop accounting principles should confine itself to broad postulates, or that it should comprehend something more?
8. To what extent do you believe that the provisions of law and the requirements of regulatory authority should affect ordinary accounting and reporting?
9. Do you think that we should concern ourselves with the development of accounting principles for public business corporations only or for other persons [i.e., entities] as well?
10. What, if any, features of the organization and work of the present committee on accounting procedure trouble you?
11. Do you consider the proposal of the President, as outlined in his article in the Journal of Accountancy for January 1958 [Jennings, 1958a], to be practicable?
12. What, if any, alternative proposal do you have to suggest?
13. What other points, if any, would you like to have the committee consider at this time?

This was indeed a comprehensive set of questions, but only two dealt with Jennings' "research organization" proposal. Five of the 13 questions dealt with the simmering controversy over "uniformity" versus "flexibility" (or "diversity") of accounting principles, on which Powell, Grady, Browne and Spacek held strong views.

In a memo dated February 7, 1958, Carman Blough replied to Powell's request that he discuss the accomplishments and shortcomings of the Committee on Accounting Procedure. Blough recited four criticisms that had been made of the committee's performance (rather than undertaking to criticize the committee himself), which I summarize below:

1. That the committee is too slow to produce results. Implicit in his discussion was the fact that his small research department was servicing too many Institute committees to provide sufficient staff support. A contributing factor, he said, was the size of the committee, but a smaller committee would necessarily include fewer representatives of the smaller firms and individual practitioners. Blough wrote, "It must be seriously questioned whether the rank and file of the profession would accept the recommendations of a small group of large firm representatives."

2. That the "caliber of members on the committee has been . . . deteriorating." Committee members, he said, have been known to "feel compelled to go back to their firms for instructions before taking a position on a matter . . . [meaning that] partners who do not have the advantage of the discussions that take place in the committee meetings tend to make the decisions." Partly, he believed that this reflected the fact that, "since the committee first started on its present basis, most firms have developed procedures for clearing technical questions within their own organizations which were not common then." Also, it was "hard to keep a firm's top policy man on the committee indefinitely. . . ."
3. That "The charge has been made [that] client influences are felt, in the considerations of the committee, more than they should be." He believed, however, that, "While it has been clear, from time to time, that a position supported by some member of the committee was one which was being followed by an important client of his firm, it has usually been impossible to assert that it did not represent his independent considered judgment. Very seldom has it seemed that a procedure was being defended to satisfy an important client."
4. That "too many members of the committee are too reactionary in their attitudes." But, he added, "that when a man has had enough experience and background to justify his membership on the committee, he has reached an age when it is only natural to look at new ideas pretty carefully before supporting them. . . . Accordingly, established procedures are given a strong benefit of doubt."

Blough concluded by saying that "Possibly the greatest objection to the work of the committee grows out of the tendency of a good many CPAs to object to anything which prevents them from adopting any procedure they consider appropriate in the circumstances."

The members' replies to Powell's 13 questions were interesting. On question 10, concerning features of the present operation of the Committee on Accounting Procedure that trouble them, Perry Mason summarized the responses as follows (with the principal advocate of the position indicated in brackets):

> Bulletins are too brief [Barr, Grady]. The committee is too large [Grady, Powell]. The calibre of the membership has deteriorated [Cannon]. The staff may be inadequate [Grady, Werntz]. The committee settles only important specific problems and does not concern itself

> with pure theory or research [Mautz]. The committee is too slow [Powell]. The committee does not work closely enough with other groups [Powell]. The committee does not do enough to guide opinion in controversial matters [Powell]. The committee is biased [Spacek]. The committee compromises too much [Spacek]. It is difficult to get members with interest and time [Werntz] [from Mason's memo to the committee dated March 3, 1958].

Barr and Grady both complained that the Bulletins did not give the reasoning in support of the conclusions. Oddly, Browne did not respond to this question, and Blough let his lengthy memorandum on the effectiveness of the Committee on Accounting Procedure be his reply.

On Question 11, the committee reacted to Jennings' proposal. Five members thought the suggestion that the Institute's Council should approve, or could veto, the research organization's pronouncements was impracticable. Several members liked the heavier emphasis on research, but they were concerned that the proposed research organization would lose touch with practical issues. In general, the committee was ambivalent toward the proposal.

In Question 7, Powell broached the evocative term, "broad postulates." (A concise summary of the evolution of the term "postulate" in the accounting literature, to which George O. May made a significant contribution, is given in an appendix.) Paul Grady, a close colleague of May's, was a partisan of the postulates approach. In his reply to Question 12, on alternatives to Jennings' proposal, he argued for (1) "a qualified group" that would identify and explain "the broad postulates or premises of determining business income," (2) a "research staff to carry out accounting research projects," and (3) an Institute committee to prepare "bulletins on accounting practice which flow from the research projects or arise from other demonstrated needs of the profession."[21] Of course, Spacek had been speaking publicly in favor of the need for the profession to establish the "premises" and "objectives" of financial reporting. In reply to Question 7, virtually all of the members favored initial attention to broad postulates or, in the case of Spacek, to "objective standards," and that a study of their implications for principles or practices should follow.

[21]With this three-part recommendation, Grady came close to anticipating the principal outlines of the Special Committee's final report.

The replies to Powell's Questions 2-6 on uniformity revealed the substratum of philosophical division that was, as suggested above, impeding the work of the Committee on Accounting Procedure. The representative of the Controllers Institute on the Special Committee, Dudley Browne, was implacably opposed to uniformity. In reply to Question 2, he wrote, "I regard uniformity as a device designed to reduce accounting from a profession to a clerical process," and he said "I am inclined to favor adequate disclosure over uniformity" in reply to Question 5. Eight years later, Browne declared:

> I maintain that divergent [accounting] practices are both the outgrowth and reflection of our economic system and that the effort to eliminate or reduce them is not a service either to our accounting system or to the economic system it serves. Such goals of restricting [management] choice and seeking uniformity are more rightfully concepts of totalitarian worlds [Browne, 1966, p. 42].[22]

Apart from Browne, Powell was the least won over by an argument for uniformity. He saw uniformity as "desirable but not essential." He added: "As a practical matter it is elusive. It is not a panacea. There probably should be more than one right way of doing any number of things, and business men should have the opportunity of experimenting with different approaches to their problems." The very fact that he asked, in Question 4, whether uniformity of accounting principles was more or less important than consistency in the application of accounting principles suggested his low regard for the former. Blough pointedly replied: "These are not alternatives." After suggesting that "the trend within a company is often more important than its comparison with other companies," he added: "However, that is no reason for failing to get as much comparability as practicable." Cannon replied, "Uniformity encompasses consistency. The one makes data comparable between different businesses; and the other makes data comparable from year to year." Mautz replied: "Consistency in application is a prerequisite to uniformity of principles. It is not a substitute for uniformity. They are about equally important." Werntz wrote, "In

[22]In his article, Browne interpreted principles as meaning "rules of action," or practices. As to fundamental principles, he wrote: "We can of course expect general agreement and uniformity in the broad and basic principles such as honesty, for example, or full and frank disclosure" [1966, p. 41].

broad general areas uniformity is more important. As to detailed practices, consistency is more important."

Powell's was clearly a minority position. He replied that "Consistency from year to year is very important. . . . Business enterprises vary from one to another in a number of respects anyway, and it has never troubled me that there are some differences in accounting." Even Grady, who replied that it is "very important to have consistency," added: "I favor more uniformity so long as we do not indulge in misrepresentation."[23]

On the subject of whether adequate disclosure of the accounting principles followed would be an acceptable substitute for uniformity among business corporations (Question 5), Cannon and Mautz said "no." Most of the others believed that disclosure was adequate until greater uniformity was achieved. SEC Chief Accountant Barr and two of his predecessors in that position (Blough and Werntz) made it clear, as Barr said, that "Disclosure of an unsound practice is not substitute for the adoption of sound principles,"[24] a view that Spacek espoused as well. Spacek counseled that "The accountant should have the right to criticize a generally accepted accounting principle in his certificate, if he will take responsibility for supporting his opinion" — a practice that his firm had already adopted for price-level depreciation [see Zeff, 1992, pp. 457-459; Accounting Research Division, 1963, pp. 211-217].

Hence, based on the replies to most of Powell's questions, there was a considerable difference of views on both the points of substance and approach. The first five of Powell's questions dealt with the attributes of good accounting, rather than directly addressing the mission given to the Special Committee, namely, consideration of "a new approach to accounting research." Powell and a few others on the committee were initially of the view that perhaps the Special Committee should actually propose the norms of sound accounting, including the

---

[23]Seven years later, Grady set forth a list of "basic concepts to which accepted accounting principles are oriented," which included a concept entitled "diversity in accounting among independent entities." Although he said that this concept does not imperil the objective to "narrow the areas of difference in accounting" and to promote greater comparability in financial statements, he concluded that "It does, however, place the objective within realistic limits which fall considerably short of uniformity" [Grady, 1965, p. 35].

[24]This was a restatement of the SEC's long-standing administrative policy on financial statements, which was announced by the Commission in Accounting Series Release No. 4, issued in April 1938 (when Blough was the chief accountant).

broad postulates. Nonetheless, the full range of questions posed by Powell was a useful beginning to the committee's work, because it focused the members' attention on the important issues.

## THE COMMITTEE'S FIRST MEETING

The Special Committee's first meeting was held on March 23-24, 1958, in New York City. All of the members of the committee, plus Mason, were in attendance. Jennings and Carey met with the committee at lunch. The minutes of the meeting were not really a record of the discussions but instead consisted of a summary of the suggestions that were broached, without attribution to any members by name. Fortunately, the author is in possession of a confidential internal memorandum written on April 8, 1958 by one of the committee members, which reviews the proceedings in greater detail.

As the committee had not been given a formal name, it was agreed that it would be called the Special Committee on Research Program.

Powell asked the members to comment on the written answers to his questionnaire, most of which had been distributed prior to the meeting. Several members criticized Browne's categorical rejection of uniformity.

At an early point in the meeting, the committee came to the belief that the Committee on Accounting Procedure should be reorganized so that its members would be the most capable and talented men from the profession. The practice of balancing the committee geographically, and having one representative from all of the big firms, would be abandoned. Views differed according to whether the reorganized entity would continue to be the Committee on Accounting Procedure or would become a review board or an accounting court. But there was general agreement that the process for establishing accounting principles should remain within the profession and under the control of the Institute.

When discussing the issues that the new entity should address, Spacek reiterated his credo that the accounting principles adopted had to be fair to various segments of the public, including stockholders, management, consumers, and labor [see Spacek, 1957c, p. 37]. Mason disputed how it could be determined that an accounting principle was fair to all of these groups. Cannon intoned that George Meany, president of the AFL-CIO, had criticized the use of accelerated depreciation in financial statements, and had argued that depreciation should represent the fair cost of using up property from the point of view of labor, as well as stockholders and consumers.[25]

Grady then proposed George O. May's postulates for consideration, and Barr recommended that the broad postulates should include the principles enunciated by the AAA committees in prior years. There seemed to be general agreement that the Committee on Accounting Procedure had not done enough to "narrow areas of difference and inconsistency in accounting practices," a principal objective that the committee had itself enunciated.[26] Powell surprised some of the members by venturing the view that he would not support an Accounting Research Bulletin that would change accounting procedures unless he knew his clients were in favor of the change. A dispute soon developed over deferred tax accounting, bringing out the difference in views between three of the Big Eight firms over the propriety of deferred tax accounting as well as the acceptability of alternative methods. Spacek, who favored deferred tax accounting and a greater degree of uniformity, said there was only one answer. Grady and Powell, whose firms believed that a required use of deferred tax accounting was unjustifiable and were reluctant to force uniformity, believed you could sign an unqualified audit report either with or without deferred tax accounting. Barr said that, in his book, the auditor could not sign both reports.

There followed a discussion of how long a period of experimentation should be allowed before a Bulletin designating one of two alternative accounting methods as preferable would secure industry acceptance. A few members believed that the SEC would not wait for industry to acquiesce, because it had the power to prescribe accounting practices under the securities acts.[27]

---

[25]This reference to Meany's view on corporate depreciation allowances also appeared in an article by Spacek in the May-June 1958 issue of the *Harvard Business Review* [Spacek, 1958b, p. 80].

[26]It seems that the earliest expression of this objective was in Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins* [Committee on Accounting Procedure, 1953, p. 8]. This passage seems likely to have been drafted by Carman Blough, the committee's research director and a former SEC chief accountant.

[27]Until this point, the rendering of the proceedings during the committee's first meeting is based on the aforementioned confidential internal memorandum written by one of the members of the Special Committee.

The minutes of the meeting reproduced a series of "suggestions" made by members of the committee for the new research program. Among them was the following, which doubtless was urged by Spacek:

> There should be a "right way" to handle any given transaction, by reference to a basic principle. It was suggested that a showing that a given principle was fair to management, to the stockholder, to labor, and to the consumer would constitute an objective standard for the establishment of accounting principles.

Powell regarded the committee's first meeting as exploratory. In a communication to the Institute's Council in April, he conceptualized the direction in which the committee was headed, and he reported that agreement had been reached on several points:

> We think the Institute should take a firm lead in the development and promulgation of accounting principles, and we believe a change in the present approach to this matter is needed. We think the research program should be a planned one. Possibly the first step could be the determination of the basic principles or postulates upon which accounting procedures are based, as a framework of reference for the solution of detailed problems; next might come the preparation of a fairly broad set of coordinated but not detailed principles, similar to the statements of the American Accounting Association; and finally could follow a consideration of more detailed matters, such as those covered by the present accounting research bulletins, but in relation to the basic broad principles. . . .
>
> We are in agreement . . . that any new approach should provide for greater staff participation in research, more effort to ascertain and lead public opinion in uncertain and controversial areas, and closer attention to means of obtaining general acceptance of pronouncements on accounting matters, than there has been in the past.

Powell's concern that the acceptance by industry of any major changes in the choices of accounting principles or practices is made clear at the end of the foregoing quotation. He was certainly not one who believed that such changes, including especially a move toward uniformity, could be forced.

Spacek was elated after the committee's first meeting. In a speech the following month, he said, "This committee, in my opinion, is making excellent progress towards its objectives" [1958a, p. 67].

## THE COMMITTEE'S SECOND MEETING

The second meeting was held in Chicago, on May 12-13, 1958. All of the members attended. Jennings and Carey, who had lunch with the committee at the first meeting, were not present. The quotations in this section are drawn from the minutes of the meeting.

At the beginning of the second meeting, the committee approved two important amendments to the minutes of the first meeting. Both dealt with the sensitive issue of promoting uniformity. The summary minutes of the March meeting, which had been drafted by Mason and probably overseen by Blough, reported, among a series of suggestions made by one or more members, that "The research program should be more than fact finding. It should include conclusions and recommendations which could result in the enforcement of uniform standards." The second sentence was amended to read: "It should include conclusions and recommendations directed toward the strengthening of accounting principles or standards." It was also stated in the minutes from the first meeting that "It is not possible to achieve complete uniformity and comparability in accounting and reporting, but much improvement can be made." The second clause in the sentence was amended to read: "but it is desirable to narrow the areas of difference." Except for these amendments, the March minutes were written to reflect Secretary Mason's view, as edited by Chairman Powell, of the emerging consensus of the committee's agreement on the shape of the new program.

At this second meeting, this emerging consensus began to look very much as it would in the committee's final report. Contrary to Jennings' suggestion in his 1957 address [1958a] that the cost of a new research organization should be shared by industry and the profession, the committee decided that "The research organization is [to be] kept within the framework of the American Institute. Outside accounting organizations would not participate directly but would be consulted and kept informed of all research activities."

Two types of publication were envisioned:

> Tentative, informative, thoroughly developed and documented studies, including conclusions reached, would be prepared by the research group and be issued

> on its own authority. The purpose of these studies is to expose ideas for comment, help to mold opinion, and pave the way for more formal and more authoritative statements of generally accepted accounting principles.

The second type would be "Authoritative statements of generally accepted accounting principles, similar in standing to the present accounting research bulletins, and based upon studies made by the research group, [which] would be issued by a special 'Board' set up for that purpose." These statements were to be "based principally upon the publications of the research group." Indeed, the committee agreed that "An immediate project would be the preparation of a statement of basic postulates and standards on which all other pronouncements would be based."

Previously, the literature available to Institute members had consisted, in the main, of articles by practitioners and academics arguing one or another side of a controversial accounting issue, which were published in *The Journal of Accountancy* or *The Accounting Review*, as well as the series of monographs and principles statements published by the American Accounting Association. In addition, the Institute's research staff had, between 1940 and 1953, published a series of short papers on controversial accounting topics [see Zeff and Moonitz, 1984, vol. II].[28] With this proposal, the Special Committee sought to stimulate the production of a series of research studies that would synthesize the best of the literature and thus promote a broader understanding and agreement on accounting principles among the Institute membership.

Several names were suggested for the "Board": Accounting Procedures Board, Board on Accounting Principles, and Board on Generally Accepted Accounting Principles. The last of these three received the most support. The term "board" was apparently intended to increase the authority and standing, beyond just committee status, of the body issuing pronouncements. The board would be "somewhat smaller" than the Committee on Accounting Procedure and would be elected by the Institute membership or by Council, rather than appointed by the president. In the selection of board members, the committee agreed

[28]This recitation omits an occasional monograph or book as well as the "official" literature composed of Accounting Research Bulletins and the SEC's Accounting Series Releases.

that "Emphasis would be placed upon competence rather than representation of particular groups or geographic areas."

The committee agreed that "Only a very few seasoned and widely accepted pronouncements would be adopted by the membership of the Institute (or the Council) and thereby would become mandatory upon the members." In fact, only in 1918 and 1934 did the Institute membership ever vote to approve or disapprove any accounting rules or principles [Zeff, 1972, pp. 115-116, 125], and the six rules or principles approved in 1934 were repeated in Accounting Research Bulletin No. 1 [Committee on Accounting Procedure, 1939] as well as in chapter 1 of Accounting Research Bulletin No. 43 [Committee on Accounting Procedure, 1953]; four of the six continue to be applicable today. None of the contents of any other Accounting Research Bulletins were ever submitted either to Council or to the Institute's membership for approval.

"The general goal," the Special Committee agreed, "should be to make the expression of generally accepted accounting principles more complete, to continue to narrow the areas of difference, and to increase the authority and acceptance of the pronouncements."

Importantly, the committee added that "All recommendations should be founded on a statement of basic postulates and standards, but attempts should be made to keep the results flexible and not freeze accounting procedures into a set of rigid rules." Thus, the concern about limiting companies' freedom of action was clearly expressed. It is not clear from the minutes whether the "postulates" were to be normative or descriptive, and it is likely that the issue was not raised. The addition of "standards" makes the foundation appear to be more yielding than if "postulates" were used alone.

An appendix to the minutes supplied details of the new organization. It is not known whether the contents of the appendix were actually discussed and agreed in the committee meeting or were interpolated by Chairman Powell and Perry Mason. The appendix provided for a board membership of 18, compared with 21 serving on the Committee on Accounting Procedure, and they all were to be members of the Institute, and therefore CPAs. It was stated in the body of the minutes that a proposal that pronouncements be approved by a simple majority, instead of by the current two-thirds, was defeated. While it was not stated in the appendix whether all of the Big Eight firms would be represented on the board, it was probably assumed that they would, and a requirement of a two-thirds majority would prevent the Big Eight firms' representatives, were they to be in agreement, from being outvoted by the other ten members. The board members were to be selected for staggered three-year terms "on basis of competence, primarily, rather than representation of particular groups or geographical areas." They would select their own chairman. They would be elected by the Institute membership or by Council rather than be appointed by the president.

The appendix called for an accounting research staff composed of a director, three to five senior members and three junior members, plus two secretaries — representing a massive increase over the staff support for the Committee on Accounting Procedure. Further, the committee decided "Contact with accounting practice would be maintained through the use of advisory committees which would work closely with the research staff." The committee consensus was that an advisory committee should not have veto power over the publication of a research study, but that the director should make the final decision.[29]

It was also stated in the body of the minutes that "it would not be appropriate for the director of the research program to edit a column in The Journal of Accountancy, as is now done by the Director of Research." There was only one Carman Blough.

The committee agreed that the accounting research staff would not be concerned with issues relating to auditing or managerial (or cost) accounting. The scope of its research activities would be the same as that for the Committee on Accounting Procedure.

The committee considered the possible use of public hearings, or of board meetings that might be attended by representatives of outside groups, but they believed that, "while expressions of opinions of non-members of the Board should be welcomed and solicited, they should be restricted to written memoranda." "It was pointed out," the minutes went on, "that publication of research studies in advance of the preparation of statements by the Board would do much to take care of the problem of informing and securing the cooperation of outside groups."

---

[29]The issue of whether to publish a research study actually arose four years later, when the director authorized publication of the research study on broad accounting principles in the face of opposition by a number of prominent members of the advisory committees on the postulates and principles studies [see Zeff, 1972, pp. 175-178].

Therefore, at its second meeting, the committee seemed to make substantial progress toward developing a reform plan.

## POWELL DRAFTS THE COMMITTEE'S REPORT, AND SPACEK OBJECTS

After two meetings, Powell believed that the members were in sufficient agreement that only one more meeting, scheduled for August 1, would be needed to put the finishing touches on its report. So he set about preparing a tentative draft report, dated July 9, 1958, which he exposed to President Alvin Jennings and Executive Director John Carey for comment prior to sending it, as modified by their comments, to the other members of the committee.

In Perry Mason's letter covering the draft, dated July 11, he cited the principal differences between Powell's draft and the plan developed at the committee's meeting in May. At Carey's suggestion, Powell decided that "Commission" would replace "Board" for the name of the new entity that was to issue the authoritative statements of generally accepted accounting principles, and that a steering committee, to be known as the Board of Managers, would supplant the Institute's executive committee as the body to oversee the financial administration of the research organization. The Board of Managers would be composed of Carey and four members chosen by Council. Powell also decided that the Commission's chairman would be chosen by the Institute's executive committee, and not by the Commission itself. Also, the director of accounting research would be selected by the Board of Managers instead of by Council. In addition, Powell risked treading on sensitive toes by allowing some of his philosophical views to seep into the draft (as will be seen).

After reading Powell's draft report, Leonard Spacek erupted. As noted above, he harbored a deep distrust of Carey and of the three firms that had been providing much of the Institute's leadership — PW, H&S and LRB&M — and he sent Powell a bluntly worded, six-page letter of criticism. In his letter, dated July 17, 1958, Spacek accused Powell of having omitted and misrepresented substantive views on which the committee had agreed, and he berated Powell for having sought Jennings' and Carey's views, for, he said, they were not members of the committee. In his reply to Spacek, dated July 22, Powell wrote that "the July 9 draft reflects the substance of the conclusions reached at the two meetings of our Committee, as I understand them. I did not knowingly include anything substantive that was not discussed, or omit or misrepresent anything substantive that was discussed." Jennings, who had been sent a copy of Spacek's letter, himself replied that, as Institute president, he was a member *ex officio* of every Institute committee, but he had scrupulously attempted not to influence the deliberations or report of the committee [letter, August 19, 1958]. Even though he respected Jennings, Spacek wanted the committee to be as free as possible of the taint of the Institute establishment, although he was well aware that Powell (H&S) and Paul Grady (PW) were senior partners of two of the most influential firms in Institute affairs.

In his letter of July 17, Spacek also criticized Powell for not emphasizing the centrality of postulates or "objective standards" in the new program. In his draft report, Powell had written:

> The general purpose of the Institute in the field of financial accounting should be to advance the written expression of what constitutes generally accepted accounting principles, for the guidance of its members and of others. This means something more than a survey of existing practice. It means inquiry to determine acceptable practice, and effort to narrow the areas of difference and inconsistency in practice.[30]

To Spacek, that sounded more like description than prescription. He reminded Powell that, at its March meeting, the committee had decided that "There should be a 'right way' to handle any given transaction, by reference to a basic principle." In fact, the committee had not made such a decision: it was merely minuted as a "suggestion," but Spacek believed that it was fundamental to the process of developing sound accounting. Powell's passage on narrowing the areas of difference and inconsistency in practice agreed almost *verbatim* with a passage in Accounting Research Bulletin No. 43 [Committee on Accounting Procedure, 1953, p. 8]. As such, it probably sounded to Spacek as a continuation of the *ancien régime*. It is interest-

---

[30]The phrase, "narrow the areas of difference and inconsistency in practice," was code terminology. As noted above, this wording appeared in the introduction to Accounting Research Bulletin No. 43 [Committee on Accounting Procedure, 1953, p. 8], and it can be traced to Accounting Research Bulletin No. 1 [Committee on Accounting Procedure, 1939, p. 2]. For many years, the SEC's chief accountant had been adjuring the Committee on Accounting Procedure to follow this course. See Pines [1965, p. 748].

ing to note that, in the committee's final report, Powell's "acceptable practice" was replaced by "appropriate practice."

The next paragraph in Powell's draft, reflecting his philosophical leaning, was as follows:

> In accomplishing this purpose, reliance should be placed on persuasion rather than on compulsion. The Institute cannot impose accounting principles by fiat. At the same time, it can, and it should make every effort to lead in the thinking on unsettled and controversial issues.

Spacek objected that the committee had not said that "reliance should be placed on persuasion rather than on compulsion." In reply to Spacek, Powell wrote, "Maybe the Committee did not say it, but, as I remember the discussion, we meant it. If we did not, we can change it." In fact, the committee eventually approved this wording for inclusion in its final report. A review of the minutes for the March meeting shows that, following Spacek's espousal of the need for an "objective standard for the establishment of accounting principles," it was stated that "There appeared, however, to be differences of opinion [within the committee] as to how far the elimination of alternative practices could be carried." Another of the "suggestions" minuted during the meeting was that "The research program should be more than fact finding. It should include conclusions and recommendations which could result in the enforcement of uniform standards." The source of this point was probably also Spacek.

Powell had stated in an early section of his draft report that:

> Thought should be given at the beginning and from time to time thereafter to the forward planning of the accounting research program and related activities, to the end that accounting principles are developed on a coherent and consistent basis and pronouncements are made in an orderly and timely manner. This does not mean the detailed codification of accounting principles. It does mean the study of the postulates, few in number, upon which accounting practices are based, followed by the formulation of a fairly broad set of coordinated but not detailed principles, as a framework of reference for the solution of detailed problems. The consideration, then, of detailed matters, such as those covered by the present accounting research bulletins, should be undertaken in relation to the postu-

> lates and broad principles previously expressed. Institute pronouncements should have reasonable flexibility, and should avoid rigidity.

Spacek complained that Powell had omitted any reference in his draft to "objective standards" (Spacek's preferred term), and he suspected that Powell's description of the operation of the Commission sounded as if it were to behave like the old Committee on Accounting Procedure, in which the members advocated accounting practices without regard to a governing set of objectives or basic norms. The phrase "upon which accounting practices are based" probably grated at Spacek, because it would have implied to him that the postulates would be inferred, or inductively derived, from established practice (in the Littletonian sense), rather than prescribed on the basis of "objective standards." That phrase was not repeated in the committee's final report. Spacek would also have bridled at the juxtaposition of "reasonable flexibility" and "rigidity," as if the proponents of uniformity favored actual rigidity [see Spacek, 1958c, pp. 85-86]. The term "rigidity" did not appear in the committee's final report.

The March meeting of the committee had apparently been regarded as exploratory and not as the occasion for defining the terms of a reform proposal. Under the heading, "Goal of the Research Program," in the minutes drafted by Perry Mason, all of the nine enumerated statements of view were characterized as "suggestions," not as agreed positions. Spacek probably recalled the points that he made during the meeting, in his typically forceful manner, without recalling whether disagreement, or contrasting views, had been expressed, and he was convinced that the statements of view in the minutes corresponding with his own views had been agreed. (He also complained in his letter of July 17 that the minutes had not represented the views of the committee. Whether, at the May meeting, he had proposed amendments to the minutes of the March meeting that failed to secure committee support is not known.) Had Spacek not suspected the Institute's leaders of a Machiavellian plot, namely, that they were determined to preserve the status quo under the flag of reform, his bill of exceptions to Powell's draft report could probably have been resolved through amicable correspondence and without vituperation. But Spacek's accusatory manner was to vent his disagreements with those who ran the profession, and this was no exception.

Apparently, none of the other committee members commented in writing on Powell's draft. Spacek's letter, which detailed many concerns in addition to those mentioned above, was sharply worded, and Powell, ever the gentleman, felt injured by the tone of his remarks. Spacek intended no personal affront; it was in his nature to speak and write bluntly. His reaction to the draft was undoubtedly colored by his distrust of the Institute and its leadership. Another factor would have been the tense relationship between his firm and several others in the Big Eight, including Powell's, arising from Arthur Andersen & Co.'s crusade to persuade the Committee on Accounting Procedure (CAP) to revise its Bulletin 44, issued in 1954, which stated that income tax allocation was not required when companies used the declining-balance method of depreciation for income tax purposes and the straight-line method for financial accounting purposes. Arthur Andersen & Co. favored income tax allocation when such differences arose [see, e.g., Spacek, 1956a, p. 6; Spacek, 1956b, p. 12], and, due mainly to the efforts of Garrett T. Burns, the firm's representative on the CAP, Bulletin 44 was finally revised in July 1958, requiring income tax allocation when different depreciation methods are used (as above). Neither H&S nor PW liked income tax allocation, and Powell was then serving on the CAP. Powell and the PW representative on the CAP filed a qualified assent, which read more like a dissent, in which they disagreed with the requirement for income tax allocation [Committee on Accounting Procedure, 1958, pp. 5-A]. As has been noted above, H&S and PW were advocates of permissiveness, while AA was not.

## THE COMMITTEE'S FINAL MEETING

The committee's third and final meeting was held on August 1, 1958, in New York City. All of the members but Carman Blough, who was ill, were in attendance. Although it was an all-day meeting, the three double-spaced pages of minutes revealed very little of the tenor of the discussion, virtually all of which was devoted to the points in Powell's July 9th draft of the final report. A number of minor amendments were made to the minutes of the May meeting.

The committee decided that it would not itself undertake to set forth the postulates or principles of accounting. Instead, the minutes stated that:

> The majority of the committee felt that, while the report should contain a statement of the basic considerations and philosophy underlying the need for a revision of the Institute's research program, [the com-

> mittee's] principal function would be to present a plan for an organization which would accomplish the desired improvement in research activities and would result in defining and determining generally accepted accounting principles.

It seems likely that Spacek constituted the minority.

The committee disapproved of the use of a Board of Managers, as suggested by Carey, and it decided to recommend that the new research program be financed through efforts of the members of the accounting profession, and not from outside the profession. Most of the other changes were said to be of an editorial nature.

## SUBSEQUENT EXCHANGES OF CORRESPONDENCE

Four days after the August 1st meeting, Perry Mason sent the committee members a rewritten draft of the final report (dated August 5), which was attached to the minutes of the meeting. The section at the outset of the report, entitled "Basic considerations," was modified and amplified. It was there that the philosophical differences over flexibility v. uniformity rose to the surface. Following the meeting, the committee members proceeded to exchange correspondence on various points in the draft with which they were at odds, and they reflected as well on decisions taken at the meeting. From this subsequent exchange of letters, it becomes clear that the committee had voted, evidently by a narrow majority, to delete a sensitive passage, "This [i.e., the development of accounting principles on a coherent and consistent basis] does not mean the detailed codification of accounting principles," from Powell's earlier draft. Grady, Powell and Blough, in correspondence, expressed regret at the committee's decision and recommended that its substance be restored [letters dated August 6, 7 and 12, respectively]. Barr believed that the sentence probably would fit better in the new draft than the old, but he did not press the matter [letter dated August 15]. Mautz said he would not object to the reinstatement of the sentence [letter dated August 15]. Cannon was willing to see it reinstated, but he felt that the point had been made adequately elsewhere in the draft [letter dated August 11]. Spacek, who had been the strongest proponent of the deletion during the committee meeting, defended the committee's decision [letter dated August 13], and Werntz agreed with him [letter dated August 15]. The deleted sentence was not restored. But a new paragraph in the August 5th draft, which survived into the final report, probably covered the same ground:

> Rules or other guides for the application of accounting principles in specific situations, then, should be developed in relation to the postulates and principles previously expressed. Statements of these probably should be comparable as to subject matter with the present accounting research bulletins. They should have reasonable flexibility.

The members continued to trade suggestions on the name of the entity to succeed the Committee on Accounting Procedure (and the Committee on Terminology). Paul Grady wrote to the committee members that he disliked the title, "Commission on Generally Accepted Accounting Principles," which the committee had just affirmed at its meeting. He said that "the word 'Commission' has a strong governmental regulatory connotation which I believe should be avoided" [letter dated August 6]. He related that "one of the principal criticisms which I have heard from businessmen in relation to Accounting Research Bulletins is that the Institute seems to be setting itself up as a regulatory body from which there is no appeal." He said that "the public relations aspect of this matter is important and that 'Board' sounds somewhat less regulatory in character than 'Commission'." Grady's suggestion of board instead of commission met with general approval, although Spacek, always suspicious of Grady's (and Powell's) motives, reminded his colleagues that the accounting profession "has regulatory aspects in its operation," although he was indifferent as between "board" and "commission" [letter dated August 13].

Grady said he favored "Accounting Research Board," thus continuing to place emphasis on "research," as had Alvin Jennings in his December 1957 address [1958a], and perhaps because he was serving on a body with the title, Special Committee on Research Program. In rapid order, Powell, Blough and Browne wrote that they agreed with Grady's preferred title [letter from Powell dated August 7; letter from Mason dated August 12, conveying Blough's view; and letter dated August 12 from Browne]. Spacek disagreed with "Accounting Research Board," as he argued that research was only one part of the responsibilities of the new board, which, he said, was to provide adequate leadership in the development of generally accepted accounting principles [letter dated August 13]. In a letter dated August 18, Werntz said he was also not happy with "Accounting Research Board," "as I do not like the connotation of 'Research' in the title." He preferred "Board on Accounting Principles," adding: "I think it is unnecessary to include the words 'generally accepted' since 'generally accepted' really comes about from the action of others" [letter dated August 18]. Blough (modifying his view) and Cannon agreed with Werntz's preference [letters from Mason dated August 19 and from Cannon dated August 20]. As the tide began to turn from "research" to "principles" in the title of the new board, Powell wrote that he did not think that the term "generally accepted accounting principles" had to appear in the new board's title so long as the board's pronouncements were characterized as "statements on generally accepted accounting principles" [letter dated August 15]. To some members, it was important that the name or published utterances of the new board be linked explicitly to the standard wording in the auditor's opinion.

Following the exchange of views, the committee's final report was revised under Powell's direction, and it was dispatched to the Institute's Council in September.[31] The final report gave Accounting Principles Board as the name of the new entity, and it is likely that Powell, Mason or Carey had made the selection. Reflecting Powell's strong preference, the final report referred to the new board's pronouncements as "statements on generally accepted accounting principles."[32] The draft also affirmed that, unlike the CAP (whose members were chosen from year to year by the Institute president), the members of the new board would be nominated by the executive committee and elected by Council. Blough later wrote, "It is anticipated that this will give the board even greater stature than was accorded the committee on accounting procedure" [1960, p. 8].

One minor crisis was averted at the eleventh hour. In a letter to Powell dated August 15, Spacek gave notice that he wanted to attach a "comment" to the report, and he submitted a preliminary draft of the comment. He believed strongly that he

---

[31]The report was published in *The Journal of Accountancy* two months later [1958].

[32]Powell's choice of preposition was apparently deliberate. Had the statements been "of generally accepted accounting principles," they would have arguably possessed a more fundamental character. The comparable preposition for auditing pronouncements (adopted by the Institute in 1973) has also been "on": Statements on Auditing Standards. The term "generally accepted auditing standards" refers to the fundamental norms that were developed in the mid-1940s and subsequently approved by the Institute's membership in 1948.

should speak out on two issues that troubled him. Although, in the proposed comment, he gave "wholehearted support to the [committee's] report," he felt it necessary to emphasize that the "objective standards [a term that was not used in the report] or postulates" must give rise to generally accepted accounting principles that require companies to show "as profit only the economic gain after preservation of beginning capital and that show the extent to which the capital is subject to prior obligations. . . . " This was a clear reference to his firm's publicly known view that general price changes must be explicitly factored into the derivation of net income [Spacek, 1956a; 1956b; Zeff, 1992, pp. 457-459]. He also wanted to state that accounting principles should "clearly recognize the reporting needs of the various segments of our society," another position that he and his firm had advanced publicly [Spacek, 1957c]. Second, he would charge the members of the new board to make "objective decisions with respect to generally accepted accounting principles on the basis of established postulates or standards without being biased because of decisions already made in their own practice." He was greatly concerned that the new board would continue as had the CAP, some of whose members, he believed, had sacrificed principle for expediency, by countenancing questionable practices supposedly to defend the interests of major clients. He said that he had less confidence than did his colleagues on the Special Committee that the members of the new board would "subordinate their prior views to the objective standards or postulates."

None of the other members of the committee would have liked the idea of Spacek's writing such a comment, and Cannon succeeded in persuading him not to do so. In a letter to Spacek dated August 28, Cannon argued that his point concerning profit being based on economic gain goes beyond the charge to the committee, which was to propose a new organization, not to settle in advance the problems that might come before it. Cannon also argued that the section on "Basic considerations" in the committee's draft report dealt with his anxiety over the meaning of accounting principles. Finally, in regard to Spacek's concern over the objectivity of the future members of the new board, Cannon wrote, "that's a risk anyone takes when he sets up an organization," and that "we have to assume that the motives of others are no less honorable than our own. . . . " After discussing Cannon's arguments with him by telephone, Spacek wrote Powell that he wished to withdraw his concurring comment [letter dated September 5].

## ESTABLISHMENT OF THE ACCOUNTING PRINCIPLES BOARD

The report of the Special Committee on Research Program marked a major turning point in the Institute's role in establishing generally accepted accounting principles. The committee succeeded in bridging significant philosophical differences among several of the major public accounting firms and their strong-willed leaders, and its report held out the promise of reinvigorating the process of establishing accounting principles. *The Journal of Accountancy*, which is published by the Institute, hailed the report and made clear "that the inspiration for it came from within the profession, rather than from outside pressure" ["Accounting Research and Accounting Principles," 1958, p. 28]. The Institute's Council adopted the report in April 1959, and the Accounting Principles Board (APB) was launched on September 1, 1959,[33] almost one year after the special committee submitted its report. Paul Grady wrote that "Accounting firms responded with generous pledges of almost one million dollars to support the newly augmented research program" [1972, p. 18].

The Institute's executive committee selected Weldon Powell to be chairman of the board. But, in a controversial move, it decided that all of the Big Eight accounting firms, apart from Powell's firm, would be represented on the board by their national managing partner, not a technical partner. Carey recalled that the reasons for this action were "both to emphasize its authority (prestige) and to speed up decision-making" [letter to the author dated July 2, 1970].[34] George O. May, who was being kept apprised of developments by Paul Grady, wrote to Institute President Louis H. Penney to criticize that decision. May argued that "the Board would operate more effectively if members chosen from the very large field were sources rather than channels of opinion."[35]

---

[33]The Committee on Accounting Procedure and the Committee on Terminology went out of existence on August 31, 1959.

[34]Carey's second reason alluded to an experience of the CAP, when some partners serving on the committee were known to seek advice from their firm's executive office prior to casting their vote.

[35]May observed that neither he nor Walter A. Staub, Samuel J. Broad and other chairmen of the Committee on Accounting Procedure were the executive head of their firm. Letter from May to Penney, dated April 2, 1959, in the George O. May collection at Price Waterhouse & Co., New York City.

Penney elaborated on the executive committee's expectation for the APB as follows:

> It is not intended that this Board will be a working committee in the sense that the Committee on Accounting Procedure has been. As we visualize the program, the Board is to be largely a policy making organization and in addition it will from time to time very likely have to make decisions regarding the selection of certain courses of action from two or more alternatives. Some of those decisions may be difficult. For that reason the Executive Committee approved the theory of selecting for the Board some of the executive heads of some of the better organized accounting firms because those individuals, generally speaking, have broad accounting experience and are accustomed to making decisions on the basis of facts submitted to them by responsible technicians [letter from Penney to Hassel Tippit, dated April 3, 1959].

The executive committee's conception of the role of the APB as a senatorial body would most certainly not have been the one envisioned by the members of the Special Committee. Nor was it an accurate forecast of the actual role of the APB. Paul Grady has written that the executive committee's decision "was a sad error in judgment, which I strongly opposed at the time" [letter from Grady to the author dated September 28, 1970]. In the end, the managing partners of seven other Big Eight firms were invited to serve on the APB,[36] but two of the firms, Peat, Marwick, Mitchell & Co. and Arthur Andersen & Co., declined to do so. They both replied that their senior technical partner, John Peoples and Russell Morrison, respectively, should represent their firm on the new board. Peat Marwick's Managing Partner William M. Black replied that his existing obligations prevented him from freeing the time to serve on the board [letter from Black to Penney, dated March 27, 1959]. AA's Managing Partner Leonard Spacek replied that Morrison was "better qualified than I," and, furthermore, he wanted to continue to speak out publicly on the deficiencies in accounting principles and practices. He also said that "it would be inappropriate for me to serve on the Board, particularly in view of my reservations as to the entire program, which I wanted to voice [in a comment appended to the Special Committee's report] but

[36]As noted above, Weldon Powell, the senior technical partner at Haskins & Sells, had already accepted the appointment as APB chairman.

finally agreed to withdraw in the interest of showing solidarity" [letter from Spacek to Penney, dated March 27, 1959]. But the executive committee continued to insist that Black and Spacek should represent their firms. Consequently, during 1959-60, the APB's first year, it had 18 members, including representatives from only six of the Big Eight firms.

The following year, Institute President J. S. Seidman, a partner in a middle-sized New York City firm, persuaded Spacek to join the APB [letter from George R. Catlett to the author dated November 29, 2000]. Peat Marwick's Black, not wishing to be the lone holdout, also joined the board [letter from Black to the author dated October 19, 1970]. Thereupon, the size of the board was increased from 18 to 21 to accommodate them.

Also in 1960, the Institute appointed Maurice Moonitz, an accounting professor at the University of California, Berkeley, as the first director of accounting research. His unit was deliberately called "the accounting research division," in order to assure that, unlike Blough's research department, it would not be commandeered by other committees of the Institute.

The program of accounting research and the work of the APB, as a result of the Special Committee's report, were thus ready to begin in earnest.

## REFERENCES


*Accounting and Reporting Standards for Corporate Financial Statements and Preceding Statements and Supplements* (1957), (Madison, WI: American Accounting Association).

"Accounting Research and Accounting Principles" (1958), Editorial in *The Journal of Accountancy*, Vol. 106, No. 4, December: 27-28.

*Accounting Research and Terminology Bulletins, Final Edition* (1961) (New York: American Institute of Certified Public Accountants).

Accounting Research Division, staff of (1963), *Reporting the Financial Effects of Price-Level Changes*, Accounting Research Study No. 6 (New York: American Institute of Certified Public Accountants).

Barr, A. and Koch, E.C. (1959), "Accounting and the S.E.C.," *The George Washington Law Review*, Vol. 28, No. 1, October: 176-193.

Bedford, N.M. (1997), *A History of Accountancy at the University of Illinois at Urbana-Champaign* (Champaign, IL: Center for International Education and Research in Accounting).

Bevis, H.W. (1965), *Corporate Financial Reporting in a Competitive Economy* (New York: The Macmillan Company).

Blough, C.G. (1937), "The Need for Accounting Principles," *The Accounting Review*, Vol. 12, No. 1, March: 30-37.

Blough, C.G. (1938), Remarks in *The American Institute of Accountants (1887-1937): Fiftieth Anniversary Celebration 1937* (American Institute of Accountants): 188-204.

Blough, C.G. (1960), "Accounting Research for Better Financial Reporting," in *Proceedings of the Twenty-Second Annual Institute on Accounting, May 19 and 20, 1960* (Ohio State University Publications, College of Commerce Conference Series, Number C-137).

Broad, S.J. (1957), "Applicability of Accounting Principles," *The Journal of Accountancy*, Vol. 104, No. 3, September: 31-37.

Browne, D.E. (1966), "Cost of Imposing Uniform Accounting Practices," *Financial Executive*, Vol. 34, No. 3, March: 38, 41-42, 44.

Brundage, P.F. (1951), "Roadblocks in the Path of Accounting," *Harvard Business Review*, Vol. 29, No. 5, September: 110-119.

Buckley, J.W., Kircher, P. and Mathews, R. (1968), "Methodology in Accounting Theory," *The Accounting Review*, Vol. 43, No. 2, April: 274-283.

Carey, J.L. (1970), *The Rise of the Accounting Profession: To Responsibility and Authority, 1937-1969* (New York: American Institute of Certified Public Accountants).

Chambers, R.J. (1963), "Why Bother with Postulates?" *Journal of Accounting Research*, Vol. 1, No. 1, Spring: 3-15.

Committee on Accounting Procedure (1939), "General Introduction and Rules Formerly Adopted," Accounting Research Bulletin No. 1 (New York: American Institute of Accountants).

Committee on Accounting Procedure (1940), "Reports of the Committee on Terminology," Accounting Research Bulletin No. 7 (Special) (New York: American Institute of Accountants).

Committee on Accounting Procedure (1947), "Depreciation and High Costs," Accounting Research Bulletin No. 33 (New York: American Institute of Accountants).

Committee on Accounting Procedure (1948), Letter to members of the Institute reaffirming Accounting Research Bulletin No. 33, dated October 14 (American Institute of Accountants).

Committee on Accounting Procedure (1953), *Restatement and Revision of Accounting Research Bulletins*, Accounting Research Bulletin No. 43 (New York: American Institute of Accountants).

Committee on Accounting Procedure (1954), "Declining-balance Depreciation," Accounting Research Bulletin No. 44 (New York: American Institute of Accountants).

Committee on Accounting Procedure (1958), "Declining-balance Depreciation." Accounting Research Bulletin No. 44 (Revised) (New York: American Institute of Certified Public Accountants).

Devore, M.M. (1959), "Accounting Principles—Their Nature and Their Origin," in *Selected Papers 1958* (Haskins & Sells, 1959): 109-125.

Eaton, M. (1957), "Financial Reporting in a Changing Society," *The Journal of Accountancy*, Vol. 104, No. 2, August: 25-31.

Gellein, O.S. (1957), "What's New in Accounting," *1957 Conference of Accountants: Accounting Papers* (The University of Tulsa).

Gilman, S. (1939), *Accounting Concepts of Profit* (New York: The Ronald Press Company).

Gordon, M.J. (1964), "Postulates, Principles and Research in Accounting," *The Accounting Review*, Vol. 39, No. 2, April: 251-263.

Grady, P. (1952), "A Proposal for the Adoption of Standards of Disclosure for Changing Price Levels," *The Journal of Accountancy*, Vol. 94, No. 5, November: 565-569.

Grady, P. (1962a), "The Quest for Accounting Principles," *The Journal of Accountancy*, Vol. 113, No. 5, May: 45-50.

Grady, P. (editor) (1962b), *Memoirs and Accounting Thought of George O. May* (New York: The Ronald Press Company).

Grady, P. (1965), *Inventory of Generally Accepted Accounting Principles for Business Enterprises* (New York: American Institute of Certified Public Accountants).

Grady, P. (1972), "Development of Accounting Principles—A Review of the Past Fifty Years," *The Florida Certified Public Accountant*, Vol. 11, No. 2, January: 14-23.

Grady, P. (1978), *Written Contributions of Selected Accounting Practitioners: Volume 2, Paul Grady* (Center for International Education and Research in Accounting, University of Illinois at Urbana-Champaign).

Haase, P. (1971), *Financial Executives Institute: The First Forty Years* (New York: Financial Executives Institute).

Holmes, O.W. (1891), *The Autocrat of the Breakfast-Table* (Boston: Houghton Mifflin and Company).

Inglis, J.B. (1974), *My Life and Times* (Privately printed).

Jennings, A.R. (1958a), "Present-Day Challenges in Financial Reporting," *The Journal of Accountancy*, Vol. 105, No. 1, January: 28-34.

Jennings, A.R. (1958b), "Accounting Research," *The Accounting Review*, Vol. 33, No. 4, October: 547-554.

Jones, R.C. (1955), *Price Level Changes and Financial Statements: Case Studies of Four Companies* (American Accounting Association).

Jones, R.C. (1956), *Effects of Price Level Changes on Business Income, Capital, and Taxes* (American Accounting Association).

Keller, T.F. (1965), "Uniformity Versus Flexibility: A Review of the Rhetoric," in "Uniformity in Financial Accounting" (see below): 637-651.

King, E.C. (1948), "Generally Accepted Accounting Principles," in Alfred R. Roberts (editor), *Selected Papers of Earle C. King* (New York: Arno Press): 44-47.

King, E.C. (1951), "What are Accounting Principles?" in Alfred R. Roberts (editor), *Selected Papers of Earle C. King* (New York: Arno Press): 21-43.

Knauth, O.W. (1957), "An Executive Looks at Accountancy," *The Journal of Accountancy*, Vol. 103, No. 1, January: 29-32.

Kohler, E.L. (1952), *A Dictionary for Accountants* (New York: Prentice-Hall, Inc.).

Kracke, E.A. (1947), "Restoration of Fixed Asset Values to the Balance Sheet: Third Negative," *The Accounting Review*, Vol. 22, No. 2, April: 208-210.

Littleton, A.C. (1961), *Essays on Accountancy* (Urbana, IL: University of Illinois Press).

Mason, P. (1956), *Price-Level Changes and Financial Statements: Basic Concepts and Methods* (American Accounting Association).

Mautz, R.K. (1957), "The 1957 Statement of Accounting and Reporting Standards," *The Accounting Review*, Vol. 32, No. 4, October: 547-553.

May, G.O. (1937), "Principles of Accounting," *The Journal of Accountancy*, Vol. 64, No. 6, December: 423-425.

May, G.O. (1943), *Financial Accounting, A Distillation of Experience* (New York: The Macmillan Company, 1943).

May, G.O. (1948), "Postulates of Income Accounting," *The Journal of Accountancy*, Vol. 86, No. 2, August: 107-111.

May, G.O. (1949), *Business Income and Price Levels—An Accounting Study* (New York: Study Group on Business Income).

May, G.O. (1958), "Generally Accepted Principles of Accounting," *The Journal of Accountancy*, Vol. 105, No. 1, January: 23-27.

Moonitz, M. (1961), *The Basic Postulates of Accounting* (New York: American Institute of Certified Public Accountants).

Moonitz, M. (1982), "Memorial: Carman George Blough 1895-1981," *The Accounting Review*, Vol. 57, No. 1, January: 147-160.

Paton, W.A. (1922), *Accounting Theory—With Special Reference to the Corporate Enterprise* (New York: The Ronald Press Company).

Paton, W.A. and Littleton, A.C. (1940), *An Introduction to Corporate Accounting Standards* (American Accounting Association).

Pines, J.A. (1965), "The Securities and Exchange Commission and Accounting Principles," in "Uniformity in Financial Accounting" (see below): 727-751.

Powell, W. (1961), "Report on the Accounting Research Activities of the American Institute of Certified Public Accountants," *The Accounting Review*, Vol. 36, No. 1, January: 26-31.

Powell, W. (1964), "The Development of Accounting Principles," *The Journal of Accountancy*, Vol. 118, No. 3, September: 37-43.

Powell, W. (1965a), "Putting Uniformity in Financial Accounting into Perspective," in "Uniformity in Financial Accounting" (see below): 674-689.

Powell, W. (1965b), "'Inventory of Generally Accepted Accounting Principles'," *The Journal of Accountancy*, Vol. 119, No. 3, March: 29-35.

Previts, G.J. and Merino, B.D. (1998), *A History of Accountancy in the United States: The Cultural Significance of Accounting* (Columbus: Ohio State University Press).

*Railroad Accounting Procedures* (1957), Hearings before a subcommittee of the Committee on Government Operations, House of Representatives, Eighty-fifth Congress, First Session, April 30, May 1, 2, and 3, 1957 (Washington: United States Government Printing Office).

Report of Special Committee Investigating Certain Phases of Work of the Committee on Accounting Procedure and the Committee on Relations with the Interstate Commerce Commission (1957), in *A Search for Fairness* (below): 469-487.

Report of the Study Group on Business Income (1952), *Changing Concepts of Business Income* (New York: The Macmillan Company).

Report to Council of the Special Committee on Research Program (1958), *The Journal of Accountancy*, Vol. 106, No. 6, December: 62-68.

*A Search for Fairness in Financial Reporting to the Public, 1956-1969* (1969) (Chicago: Arthur Andersen & Co.).

Securities and Exchange Commission (1938), "Administrative Policy on Financial Statements," Accounting Series Release No. 4 (Washington, DC: SEC).

Spacek, L. (1956a), "Accounting Has Failed to Prevent Major Misrepresentations," in *A Search for Fairness* (above): 1-7.

Spacek, L. (1956b), "The Elusive Truth of Business Profits," in *A Search for Fairness* (above): 9-15.

Spacek, L. (1957a), "Professional Accountants and Their Public Responsibility, in *A Search for Fairness* (above): 17-26.

Spacek, L. (1957b), Letter to the AICPA, in *A Search for Fairness* (above): 488-489.

Spacek, L. (1957c), "The Need for an Accounting Court," in *A Search for Fairness* (above): 27-38.

Spacek, L. (1958a), "The Impact of Inflation on Accounting," in *A Search for Fairness* (above): 61-67.

Spacek, L. (1958b),"Challenge to Public Accounting," in *A Search for Fairness* (above): 71-83.

Spacek, L. (1958c), "Can We Define Generally Accepted Accounting Principles?" in *A Search for Fairness* (above): 85-95

Spacek, L. (1989), *The Growth of Arthur Andersen & Co. 1928-1973: An Oral History* (New York: Garland Publishing, Inc.).

Storey, R.K. (1964), *The Search for Accounting Principles: Today's Problems in Perspective* (New York: American Institute of Certified Public Accountants).

"Uniformity in Financial Accounting" (1965), *Law and Contemporary Problems*, Vol. 30, No. 4, Autumn.

Vatter, W.J. (1963), "Postulates and Principles," *Journal of Accounting Research*, Vol. 1, No. 2, Autumn: 179-197.

*A Vision of Grandeur* (1988) (Chicago: Arthur Andersen & Co.).

Walker, R.G. (1992), "The SEC's Ban on Upward Asset Revaluations and the Disclosure of Current Values," *Abacus*, Vol. 28, No. 1, March: 3-35.

Werntz, W.W. (1946), "Trends in Accounting," *The Journal of Accountancy*, Vol. 81, No. 1, January: 34-41.

Werntz, W.W. (1958), "Accounting in Transition," *The Journal of Accountancy*, Vol. 105, No. 2, February: 33-36.

Zeff, S.A. (1972), *Forging Accounting Principles in Five Countries: A History and an Analysis of Trends* (Champaign, IL: Stipes Publishing Co.).

Zeff, S.A. (1984), "Some Junctures in the Evolution of the Process of Establishing Accounting Principles in the U.S.A.: 1917-1972," *The Accounting Review*, Vol. 59, No. 3, July: 447-468.

Zeff, S.A. (1992), "Arthur Andersen & Co. and the Two-Part Opinion in the Auditor's Report: 1946-1962," *Contemporary Accounting Research*, Vol. 8, No. 2, Spring: 443-467.

Zeff, S.A. and Moonitz, M. (1984), *Sourcebook on Accounting Principles and Auditing Procedures 1917-1953* (New York: Garland Publishing, Inc.).


## APPENDIX

### A Concise Summary of the Evolution of the Term "Postulate" in the Accounting Literature

The term "postulate" was not frequently used in the accounting literature in the 1950s, but, as is well known, Maurice Moonitz's Accounting Research Study No. 1, published in 1961 under the aegis of the Accounting Principles Board, was entitled *The Basic Postulates of Accounting* [1961]. During the 1960s, numerous authors discussed the "postulates" approach to developing accounting principles [see, e.g., Chambers, 1963, Vatter, 1963; Gordon, 1964; Buckley et al., 1968], and it might therefore be instructive to explore the provenance of this term in the accounting literature. Paton [1922, p. 472] entitled a chapter "The Basic Postulates of Accounting," in which he enumerated seven "underlying propositions upon which accounting is based." Paton's use of the term was carried forward in the "tentative statement of accounting principles" issued by the American Accounting Association's executive committee, of which Paton was a member, in 1936. The executive committee used the term "postulates" to describe "certain basic propositions of accounting which embody standards of adequacy and reasonableness in the presentation of corporate financial statements."[37] What the AAA committee called postulates, however, were in reality what it regarded as statements of proper practice.

George O. May continued the use of "postulates" but with a very different meaning. In 1937, May, who was to become chairman of the Institute's Committee on Terminology, argued that the term "principles" should be defined, quoting a dictionary definition, as "A general law or rule adopted or professed as a guide to action; a settled ground or basis of conduct or practice. . . ." He rejected its definition as "A fundamental truth or proposition on which many others depend. . . ." [ibid., p. 423]. Three years later, his terminology committee said: "Initially, accounting rules are mere postulates derived from experience and reason. Only after they have proved useful, and become generally accepted, do they become principles of accounting" [Committee on Accounting Procedure, 1940, p. 60; see also May, 1943, p. 38]. To May, therefore, postulates were principles (in reality, practices) that had not yet won general acceptance. But in the late 1940s he redefined postulates as working assumptions or guiding propositions. In a monograph written for the Study Group on Business Income, May identified two "postulates or canons of income accounting" [May, 1949, p. 23] which fell somewhere between "the foundation on which accounting concepts of income rest" and "problems of a conceptual character encountered in the determination of business income" [ibid., p. 21]. His two postulates were "the going concern concept" and "that the income statement of a year should be regarded as a part of a continuous and integrated series" [ibid.]. Three years later, in the Study Group's report, which May largely drafted, it was stated that "Income accounting necessarily rests on a framework of postulates and assumptions; these are accepted and acceptable as being useful, not as demonstrable truths; their usefulness is always open to reconsideration" [Report of the Study Group on Business Income, 1952, p. 19; see also May, 1948]. Three postulates were cited: monetary, permanence (i.e., going concern), and realization. The monetary postulate was "that fluctuations in the value of the monetary unit, which is the accounting symbol, may properly be ignored" [Report of the Study Group on Business Income, p. 20].

Eric L. Kohler, in the first edition of his *A Dictionary for Accountants*, gave the following definition of postulate: "Any of a series of axioms or assumptions constituting the supposed basis of a system of thought or an organized field of endeavor" [1952, p. 323]. He also wrote that "If a principle is accepted without evidence of proof, it may be called an *axiom*, *assumption*, or *postulate*" [ibid., p. 335]. Finally, in 1957, Oswald W. Knauth, a distinguished company executive and

---

[37]Although the AAA committee used the term "postulates" only once, Gilman [1939, chap. 14] referred to all 20 of the committee's propositions as postulates.

public servant who had been associated with May in the original drafting of the 1952 Study Group report [1952, p. v], reiterated the three postulates from the report in an article published in *The Journal of Accountancy*. Knauth's article was one of those that Powell asked the committee members to read.