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The Accounting Historians Notebook

Vol. 16, No. 2

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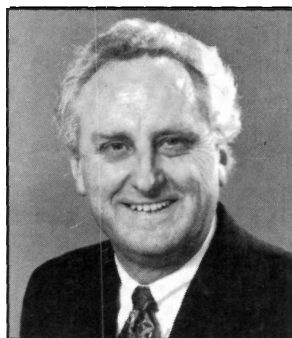
Fall, 1993

BROWN RECEIVES MANUSCRIPT AWARD

Dr. Ken Brown is the recipient of the Richard G. Vangermeersch Manuscript Award for 1993. The Award is in recognition of his manuscript entitled "History of Financial Reporting Models for American Colleges and Universities: 1910 to the Present." The award was presented to Dr. Brown at the Academy's reception in San Francisco.

Dr. Brown is currently an associate professor of accounting at Southwest Missouri State University, but he served the University in many administrative capacities for nearly two decades prior to beginning his academic career. He first came to Southwest Missouri State in 1970 as the Assistant Vice President for Finance and during his time there has also served as the Assistant to the President and Associate Director of Planning and Policy. According to Dr. Brown, this long-time involvement and interest in the higher-education industry was a motivating force in the research for his manuscript.

Dr. Brown obtained his Ph.D. in Business Administration (Accounting) from the University of Arkansas in 1992. His other degrees include a Master of Business Administration from Drury College in Springfield, Missouri and a Bachelor of Business Administration (Accounting) from Wichita State University. His research interests are in the areas of government accounting and internal auditing. Recent publications are *Internal Auditing*, *Ohio CPA Journal*, and



Planning for Higher Education with forthcoming articles in *Accounting Enquiries: An Academic Journal* and *Government Accountants Journal*. A number of his papers are under review, and of course we will look forward to his paper in the *Accounting Historians Journal*. He has presented nine papers at regional meetings of the American Accounting Association.

Dr. Brown is a CPA in Missouri. Before beginning careers in university administration and academics at Southwest Missouri State, he worked several years in public accounting in Wichita, Kansas and Springfield, Missouri. Professionally, Dr. Brown remains very active. He is serving as the 1993-94 President of the Ozarks Chapter of the Association of Government Accountants and is also serving on special committees for the Missouri Society of CPAs, the American Accounting Association's Government and Nonprofit Section, and the Government Finance Officers Association. He is also a member of the Academy of Accounting Historians.

MESSAGE FROM THE PRESIDENT

My year as president is coming to a close. The highlight of the year will occur in December with the Conference on Biographical Research in Accounting and the Annual Business Meeting. The Conference is scheduled for December 3 and 4 on the campus of The University of Mississippi. The business meeting will be held at the conclusion of the Conference.

The purpose of the Conference on Biographical Research in Accounting is to focus on the importance of studying and assessing the influence of individuals on the development of accounting thought and practice. The papers and discussion will include methodologies and assessment of the impact of individuals on the development of accounting. Papers which show the use of biography or illustrate the influence of an individual on the profession of accountancy will be presented in plenary and concurrent sessions. Plenary speakers will include Professors Stephen Zeff and David Solomons. Twenty-six papers have been accepted for presentation. Abstracts of the papers will be sent to registrants in advance. Dale Flesher is acting as co-director of the Conference.

Conference registration materials have been sent to all members of the Academy. I look forward to seeing you in December.

Committee and task force chairs will present reports of their activities at the Annual Business Meeting on Saturday afternoon, December 4. These groups have been busy this year, and their reports should spark much discussion. The Hourglass Award will be presented at this Meeting. All members are encouraged to attend and participate.

Two task forces have been meeting and deliberating on very important matters that affect the future of the Academy. One group has been examining the role of the Academy's research centers. The resources of the Academy have grown dramatically in recent years beginning with the original Accounting History Research Center at Georgia State University and adding the Tax History Research Center, Videotape Library and EDP auditing Archives at The



University of Mississippi. This task force is chaired by Professor Richard Vangermeersch who will present the results of the group's analysis at the Business Meeting.

The charge of the second task force was to explore options for the strategic organizational structure of the Academy. This study group was led by Professor Gary Previts. Dr. Previts will present the options for organizational structure that have been identified by the task force. These options will provide the foundation for deliberations by the task force which will be formed by 1994 President Ashton Bishop who served on this year's task force.

The matters to be discussed at this year's business meeting are vital to the continuing success of the Academy. The organization is at a critical point in its development. I am pleading with all Academy members to be active participants in these crucial discussions so that the ultimate decisions will insure that the Academy of Accounting Historians secures its position as the international organization for the study of accounting history.

I would like to close by thanking all of the officers, committees and task forces, and members who have helped me during my presidency. Everyone has been cooperative and quite willing to serve the Academy. Thank you all for allowing me to be your president. I extend my best wishes to the 1994 President, Ashton Bishop.

Tonya Kay Flesher

SCHEDULE OF ACADEMY FUNCTIONS

The following are the scheduled activities of the Academy for 1994. Some are tentative, and more detail will be provided in the Spring 1994 issue.

MARCH 4, 1994

The Pacioli Seminar, 1994
Edinburgh, Scotland

Cosponsored with The Institute of Chartered Accountants of Scotland (ICAS). For information, contact: Moyra Kedslie (University of Hull), Tom Lee (University of Alabama), or Aileen Beattie (ICAS).

APRIL 30, 1994

Meeting of the Trustees and Officers
Galt House, Louisville, Kentucky

Agenda will be mailed later. The meeting will follow the Southeast Regional Meeting of the American Accounting Association.

AUGUST 10, 1994

Meeting of Trustees and Officers
Annual Reception
Past President's Dinner
New York City, NY

Agenda and details will be mailed later and provided in the Spring, 1994 issue. The program is held in conjunction with the National Meeting of the American Accounting Association.

DECEMBER 9-10, 1994

Research Conference
Annual Business Meeting
Georgia State University
Atlanta, Georgia

Program and information regarding the conference and meeting will be provided in the Spring, 1994 issue.

PROCEEDINGS OF THE ACCOUNTING HALL OF FAME CONFERENCE

The Proceedings of Accounting Hall of Fame Conference: U.S. Accounting History 1965-1990, was published in 1992 by the Academy of Accounting Historians and The Ohio State University College of Business. The monograph was edited by Thomas J. Burns of The Ohio State University. It presents the written version of the oral history discussion that took place at the Conference in November, 1992. Included in the monograph are biographical sketches of each of the participants.

The monograph is priced at \$10 per copy. Orders and inquiries may be made to: Thomas J. Burns, The Ohio State University, Department of Accounting and Management Information Systems, 408 Hagerty Hall, 1775 College Road, Columbus, Ohio 43210-1399. Checks should be made out to The Academy of Accounting Historians and accompany the order.



THE ACCOUNTING HISTORIANS NOTEBOOK

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Accounting Historians Notebook, Vol. 16 [1993], No. 2, Art. 18
**EDWARDS RECEIVES AICPA GOLD MEDAL
AWARD FOR MERITORIOUS SERVICE**

Dr. James Don Edwards received the AICPA Gold Medal for Meritorious Service at the AICPA Annual Meeting in New Orleans in September. Dr. Edwards is the J. M. Tull Professor of Accounting in the J. M. Tull School of Accounting at the University of Georgia and is one of the nation's leading academic accountants. As the Tull Professor, Dr. Edwards is involved in teaching, research, and public service.

He is a graduate of Louisiana State University and has been inducted into the Louisiana State University Alumni Federation's Hall of Distinction. He received his M.B.A. from the University of Denver and his Ph.D. from the University of Texas. Currently, he is a C.P.A. in both Texas and Georgia. Dr. Edwards was Professor and Chairman of the Department of Accounting and Financial Administrator at Michigan State University. He was also a professor and Dean of the Graduate School of Business Administration at the University of Minnesota and a Visiting Scholar at Nuffield College, Oxford University in Oxford, England. He has lectured throughout the United States and in more than 20 universities overseas.

Dr. Edwards has authored or coauthored 23 books and more than 100 articles and monographs on accounting and financial management. During his career Dr. Edwards has held many leadership positions in the major professional accounting organizations. He is a past president of the American Accounting Association, past national vice-president of the Institute of Management Accounting, and has served on the board of directors of the American Institute of Certified Public Accountants and as chairman of the Georgia State Accounting Foundation. He also served on the Public Review Board of Arthur Andersen for ten years. His AICPA committee involvement has included the



standards of professional conduct committee and the CPA board of examiners.

Dr. Edwards has received numerous honors throughout his career. In 1974 he was selected by the National Honor Society as the recipient of its first annual "Outstanding Accountant of the Year" award. In 1975 he was selected by the American Accounting Association to receive its "Outstanding Educator" award. The Association of Students of Accounting chose him as the "Faculty Member of the Year" for 1978-79. He received the Silver Medal Award for Outstanding Contribution to Accounting Literature in 1981-82 from the Institute of Management Accountants, Outstanding Educator of the Year for 1988 from the Georgia Society of Certified Public Accountants, and the Outstanding Faculty Service Award from the Alumni Association of the University of Georgia in 1989.

TALK ABOUT MEMBERS

STONE ELECTED

SECRETARY/TREASURER

Mary S. Stone, Ernst & Young Professor of Accountancy at the University of Alabama, and long-time member of the Academy was elected to the office of Secretary/Treasurer of the American Accounting Association for 1993-94. Dr. Stone received her Ph.D. from the University of Illinois. Her teaching interest is in financial accounting. She has published in a number of journals and served the Academy in past years.

JENSEN SERVES AS A DIRECTOR

Daniel L. Jensen is currently serving as Director of Publications of the American Accounting Association for 1993-95. Dr.

Jensen is the Ernst & Young Professor of Accountancy at the Ohio State University where he also received his Ph.D. He is a member of the Academy.

GARNER RECEIVES AWARD

Dr. S. Paul Garner was one of two professors to receive the 1993 Outstanding Accounting Educator Award for the American Accounting Association. This most prestigious award was presented at the Association's Annual Meeting in San Francisco on August 9, 1993. Dr. Garner, Dean Emeritus at the University of Alabama, has served the AAA as president. Dr. Garner is a long-time member and supporter of the Academy of Accounting Historians.



CALL FOR MANUSCRIPTS THE ACCOUNTING HISTORIANS JOURNAL

The Accounting Historians Journal encourages you to submit papers on subject matter related to the development of accounting thought and practice. Papers on biographical subjects and on historical method are also acceptable. Guidelines on research and a guide for submitting manuscripts may be found in *The Journal* or may be obtained from the Editors.

Manuscripts must be in English and of acceptable style and organization for clarity of presentation. The manuscript should not exceed 7,000 words. An abstract of not more than 200 words should separately accompany the manuscript. A submission fee of \$36 (U.S.) is required of non-Academy members and \$15 of Academy members. More detailed information concerning additional requirements regarding style, content, and the submission requirements is included in the

guidelines mentioned in the previous paragraph.

Submit Manuscripts to:

Barbara D. Merino
The Accounting Historians Journal
Department of Accounting
College of Business Administration
University of North Texas
Denton, Texas 76203-3677
(817) 565-3094

For information and other matters, contact:

Patti A. Mills
The Accounting Historians Journal
Department of Accounting
College of Business
Indiana State University
Terre Haute, Indiana 47809
(812) 237-2008

PAUL F. GRADY AND THE DEBATE ON THE AUTHORITY OF THE APB

by

Elliott L. Slocum, Georgia State University

Teresa T. King, Georgia College

Paul F. Grady is recognized in accounting history as a practitioner, a researcher, a scholar, and a public servant, (Previts, September, 1986); indeed, he epitomized the accounting professional. Grady began his professional career in 1923 and served as a partner in Arthur Andersen & Company (1932-1942) and Price Waterhouse & Company (1944-1960). During his career in public accounting, Grady served on many committees of the American Institute of Certified Public Accountants (Institute). He chaired the committee on auditing procedure (1944-1948) which developed and published *Generally Accepted Auditing Standards: Their Significance and Scope* and *Internal Control—Elements of a Co-Ordinated System and Its Importance to Management and the Public Accountant*.

Grady served on the special committee on research, established in December 1957, which led to the establishment of the Accounting Principles Board (APB, Board) and the Research Division of the Institute. He served on the project advisory committee for *Accounting Research Study No. 3, A Tentative Set of Broad Accounting Principles for Business Enterprises* conducted by Drs. Robert T. Spouse and Maurice Moonitz. His opinions concerning this study led to his research and publication of *Accounting Research Study No. 7, Inventory of Generally Accepted Accounting Principles for Business Enterprises in 1965*.

Grady accepted the position as director of research for the Institute in 1963. As Grady began his work as director, the Institute was involved in debate regarding the authority of the APB for generally accepted accounting principles. The result of this debate had a profound impact on the

profession. This paper will review the events involving the issue of the APB's authority and the role Grady played in the solution.

The Issue of Authority

Dissension among Institute members and the continuing widespread adverse publicity regarding the accounting profession and the APB had in the view of many reached crisis level by 1963. Institute President, Robert Witschey sought to clarify the APB's objectives and establish procedures which would avoid in the future the adversities experienced with the investment credit issue. Subsequently, the Board narrowly approved recommendations that members of the Institute be required to disclose accounting principles used which materially varied from Board approved principles and that auditing standards of reporting and the Code of Professional Ethics be amended to assure compliance. (Carey, 1970)

Alvin Jennings (August, 1964), who succeeded Weldon Powell as chairman of the Board, said concerns by the Board regarding its responsibility to narrow differences and inconsistencies in accounting practice led to the discussions and subsequent proposals. The concerns were at least partly due to the developments after the issue of *Opinion No. 2* on the investment credit which emphasized a lack of agreement on what was meant by "generally accepted accounting principles" and created uncertainty about the status of the Board's pronouncements. As a result, the Board requested a revision of the standards of reporting to better relate to the pronouncements of the Board. Jennings, in communicating with the executive

committee, pointed out that a better definition of "generally accepted accounting principle" was needed and that some action was necessary "to eliminate existing ambiguity with respect to the force of its pronouncement, . . ." (p. 28)

The executive committee, after much discussion decided that the vote of the Board was too close to justify sending the proposal to the Council. However, the executive committee agreed with the Board's objectives and tentatively approved a similar proposal which stated that the opinions issued by the Board should be regarded as generally accepted accounting principles and that auditors should justify in their audit opinions departures from these opinions. (Carey, 1970) This new proposal was exposed to the members of the principal Institute committees and resulted in much disagreement.

A special report entitled *Status of Pronouncements of Accounting Principles Board* (Carey, 1970) or "white paper" was approved by the executive committee of the Institute in March, 1964, to "establish the force and effect of pronouncements" issued by the APB. This modified proposal stated that APB pronouncements would become the only generally accepted accounting principles for the subject area involved for purposes of expressing an opinion on financial statements by members of the Institute. Unless the Council ordered otherwise, the authority of an APB Opinion would become effective after an eighteen month period following its release. After the waiting period, members would be required to direct attention in their reports to departures from the pronouncement as departures from generally accepted accounting principles. Previous ARBs and APB Opinions would continue in their current status unless reissued by the Board. ("Proposal to Council Would Define Authority of APB Pronouncements," April, 1964)

According to Jennings, (August, 1964), the Board had only intended that use of

principles which materially varied from Board pronouncements be reported in some satisfactory manner. However, the executive committee decided to substitute the proposal that would bestow absolute authority to the APB pronouncements.

The motion presented for discussion at the Council meeting on May 4-7, 1964, was as follows:

A pronouncement of the Board constitutes the only generally accepted accounting principle for purposes of expressing an opinion on financial statements, unless and until rescinded by Council. (Carey, 1970, p. 113)

The motion (Carey, 1970) was said to give greater authority to opinions of the Board, to define more clearly the profession's leadership role in the development of accounting principles, to provide and strengthen the meaning of the concept of "generally accepted accounting principles," and to help eliminate undesirable and unnecessary variations in accounting practice.

Proponents of the motion believed that if action was not taken to deal with the widespread criticisms, public pressure could force the Securities and Exchange Commission (SEC) to exercise its authority. The motion would clearly establish that generally accepted accounting principles were those established by the national organization of Certified Public Accountants. The compulsion issue regarding the motion would simply require disclosure of "...deviation from generally accepted accounting principles as the profession itself will have defined them after consultation with representatives of management, the SEC, the stock exchanges, analysts, bankers and anyone else who is interested...." (Carey, 1970)

Grady's Position

In a speech delivered at the University of Illinois, Grady (October 20, 1966) stated that:

...In this kind of climate, it should not be surprising that impatient, irresponsible, and sometimes misguided critics of the APB and of the accounting profession have found it easy to make spectacular headlines by proposing uniformity in accounting, to a degree not compatible with the "facts of life" in our economy, together with authoritarian measures in the development and enforcement thereof.

He believed the existing pattern of reporting to investors provided a system of checks and balances whereby the primary responsibility and authority of the directors and officers of an enterprise to select accounting principles and methods were balanced by the secondary responsibilities of the stock exchanges, regulatory agencies, and independent public accountants. "..., this system is ideally fitted to serve the public interest in the processes of meeting fiduciary accountabilities for investor-owned business enterprises." In a paper delivered to the American Petroleum Institute's Division of Accounting and Finance in June, 1964, Grady said that the Board and Research Division tried to promote the widest possible participation practical by interested parties leading to the "enlightened development and clarification of generally accepted accounting principles...which reflect the degree of wisdom and persuasion to merit confidence and general acceptance." (August, 1964, p. 58)

Grady strongly opposed the concept of uniformity as a goal in developing accounting principles, and he stated, when he accepted the position as director of research, that he would oppose any action that would lead to uniformity in accounting principles. Grady believed that the authority of the APB should result from the consensus of the profession as evidenced by use of the pronouncements and that if the Board exercised its powers sensibly and cooperated with and educated interested

groups, the Board would not encounter any serious problems in achieving acceptance of its pronouncements. (Zimmerman, 1978)

Many companies had not followed the Board's position in *Opinion No. 2*, and the auditors had not qualified their audit opinions. In the heated debate, some firms were criticized for regarding themselves as being above the Board's pronouncements. Grady considered the opinion on investment tax credit to be a serious error in judgment because the Board should have known that most businesses would want to use the "flow through" approach. The issuance of *Opinion No. 4* in March, 1964, was also extensively criticized and detrimental to the Board's image. (Grady, April 27-28, 1979) Grady considered the opinions on investment tax credit to be good examples of why granting of absolute authority to the opinions of the APB was a mistake.

Grady (Minutes: Spring Council Meeting) defended his opposition to the motion in a paper presented to the Institute's Council. Grady stated that the motion would provide the APB with even more authority than was asked for in its charter and would produce other unsatisfactory results. First, authority would be vested in the APB. The membership and Council would surrender the authority to approve statements on accounting principles which would be binding upon the membership. Second, a very cumbersome qualification in the auditor's reports would be required for accounting practices for which the CPA, after investigation, may have found substantial authoritative support. This requirement would lengthen and complicate the auditor's reports. Thus, he concluded that the standard wording of the opinion, "the statements fairly present...in conformity with GAAP," would no longer be usable which would eradicate a major achievement made thirty years before with the development of a standard opinion.

continued on page 19

THE ACADEMY OF ACCOUNTING HISTORIANS

Minutes of the Trustees, Officers, and Key Members Meeting

College of Business Administration Room 596

Georgia State University, Atlanta, GA

Saturday, April 24, 1993

Present: Maureen Berry, Ashton C. Bishop, Doris M. Cook, James Don Edwards, Dale L. Flesher, Tonya K. Flesher, Al G. Mayper, Gary John Previts, Al Roberts, Elliott Slocum, Mary Stone, Michael van Breda.

1. President Tonya Flesher called the meeting to order at 1 p.m.
2. Michael van Breda presented the treasurer's report. He reported that the Academy is in sound financial condition. The budget for 1994 is being prepared.
3. Doris Cook distributed a list of 10 members who have cancelled their membership for various reasons, such as retirement. She also distributed a list of 53 members who have sent no response to two dues notices. President Flesher will send a letter to each of the 53 members.
4. Ashton Bishop presented a membership report for the year ended December 31, 1992. This report shows 582 U.S. members and 316 non-U.S. members for a total of 898 members on December 31, 1992. A three year comparison shows U.S. membership has declined from 632 in 1990, 608 in 1991, to 582 in 1992. The non-U.S. membership has increased from 253 in 1990, 286 in 1991, to 316 in 1992.
5. Gary Previts moved that the officers (President, President-elect, Treasurer and Secretary) be given the discretion to cancel the scheduled dues increase of \$2 for 1994. This decision should be made after the 1994 budget is prepared and before the dues notices are printed. Perhaps the \$2 dues increase is not needed financially and may be part of the cause of the

decline in membership. Motion passed unanimously.

6. Ashton Bishop moved the following resolution which was unanimously approved:

Resolve: The Board of Trustees of the Academy of Accounting Historians would like to formally recognize and profusely thank Nihon-Shoseki, Ltd. for their help in assisting the Academy's development in Japan. For 15 years (1977-1991) Nihon-Shoseki, Ltd. served as the exclusive wholesale distributor for the *Accounting Historians Journal* in Japan to non-members of the Academy. We are extremely grateful to Nihon-Shoseki for this valuable service. The Academy would be delighted and welcome the opportunity to continue to work with Nihon-Shoseki, Ltd. as a distributor of our publications in Japan.

A special letter of thanks will also be sent to Nihon-Shoseki, Ltd. by Dr. Bishop. The resolution and letter are to show our appreciation at the termination of our exclusive arrangement with them for distribution of the *Accounting Historians Journal*.

7. Ashton Bishop presented a preliminary outline for a conference with an education theme. The suggested time is Friday afternoon and Saturday morning, including a Friday evening reception and dinner, and Saturday breakfast and lunch. The place suggested is Georgia State University in the Fall 1994. Mary Stone suggested that we communicate with the Teaching Curriculum AAA Section regarding the proposed conference.

8. President Flesher noted that she had good response to her request for committee members. Elliott Slocum will print the committees in the *Notebook*. It was also suggested that the committees might meet at the annual meeting in San Francisco in August.
9. Maureen Berry reported that she has received no submissions for the Vangermeersch Manuscript award so far. She will get a flyer ready for the annual meeting. Also, the announcement will be put in both the Fall and Spring *Notebook*.
10. Al Mayer reported that the membership committee has started a membership drive using an incentive system. It was suggested that more publicity to solicit new members might be obtained through the newsletters of the 10 largest state societies.
11. A report sent by Phillip Siegel, chair of the Education Committee, noted four items planned by the committee: (1) column in the *Journal* on education topics; (2) column in the *Notebook*; (3) complete work of last year's committee; (4) compile class assignments related to accounting history from professors.
12. A report sent by Hans Johnson, chair of the Regional Programs Committee, noted that goals included: (1) having a history session at every regional meeting, and (2) compiling a list of titles and authors of papers presented at history sessions for 1993 and 1994 meetings.
13. Gary Previts discussed the plans of the Strategic Organizational Task Force. The charge of the Task Force is to identify the options for changes in the organization of the Academy. He will ask the Task Force members to respond to a series of questions and report the results. Some of the concerns include cost, tax exempt status, and maintaining identity of the Academy.
14. President Flesher noted that she would not be able to attend the Annual meeting in San Francisco in August and asked if we really need a meeting. President-elect Ashton Bishop will preside if we do have a meeting.
15. Gary Previts suggested that the \$2,500 received from Nihon-Shoseki, Ltd. in settlement of their account be split between the two Centers, based upon the budget requests submitted by the Centers to the treasurer. This suggestion was approved.
16. Michael van Breda reported that he has made arrangements with a bank to receive dues by credit card. This change will be put on the next dues statement.
17. President Flesher thanked Al Roberts for making arrangements for the room and lunch for the meeting.
18. Gary Previts reported on his contacts with editor candidates to succeed Dale Flesher and Bill Samson as the editorial team of the *Journal*, effective January 1, 1994. Previts was told to continue the process with the understanding that the proposed new team of Barbara Merino and Patti Mills are acceptable to the trustees, provided they agree to serve. In addition, Sarah Reed, Texas A&M University, will be asked to serve as production editor. (Subsequently, Previts has confirmed Merino's willingness to serve such a term (Usually three years); Patti Mills had previously accepted with the proviso that another senior scholar jointly serve with her. Thus, Sarah Reed was not contacted.)
19. The meeting adjourned at 4:10 p.m.
Respectfully Submitted,
Doris M. Cook, Secretary
Academy of Accounting Historians
April 27, 1993

FOOTNOTES . . .

The following represent short items submitted for your interest by the respective authors.

MONTGOMERY ON THE INCOME TAX

by

Alfred R. Roberts

Georgia State University

Robert Heister Montgomery (1872-1953), accountant, lawyer, educator, and author was one of the recognized, outstanding leaders of the accounting profession for the four decades from about 1910 to 1950. He was one of the founding partners of Lybrand, Ross Bros. and Montgomery, which is currently known as Coopers and Lybrand.

It is doubtful that his formal education went beyond the fifth or sixth grade, but he was eventually a major force in accounting literature and accounting education. While working as a public accountant in Philadelphia, Montgomery studied law at night with two lawyers who were his preceptors. He was admitted to the Pennsylvania Bar in 1902 and the New York Bar in 1904. He had no desire to practice law, but he did use his legal training to support his accounting practice.

His interest in law was slightly awakened in 1909 when the Payne Aldrich tariff bill was enacted into law. This bill included a provision whereby corporations would be taxed upon net income in excess of \$5,000. Most accountants felt that the law would be declared unconstitutional and paid little attention to it. However, many found that the wording of the bill would make compliance difficult because it required net income to be determined by deducting from gross income: expenses actually paid, losses actually sustained, and interest actually paid. This would lead to a combination of accrual and cash accounting in the determination of taxable income. In addition, it was required that net income was to be computed on a calendar year

basis only. This experience started Montgomery on a personal crusade against complicated and unfair general taxation. His criteria seemed to be that any general income tax should be fair to every taxpayer and the government, yet simple to administer.

The ratification of the Sixteenth Amendment led Montgomery to make many trips to Washington to consult with Cordell Hull, who was very influential in framing the tax bill. Evidence indicates that Hull used some of Montgomery's arguments in trying to draft a fair tax bill. In 1913, Lybrand, Ross Bros. & Montgomery published a sixty-four page booklet entitled, *Income Tax Guide*. The rates were so low that there was little resistance to the tax, and there was little difficulty complying with the tax law. Montgomery felt that the low rates and easy compliance could not last long, and he constantly urged the profession to take an active interest in the law and its administration. He noted that the legal profession took no interest in the tax law and had admitted that it was an area for the accountants. He said that this is "where the lawyers lost the trick."

Montgomery's 1916 edition of *Auditing* contained ninety-four pages devoted to the income tax. In the preface he wrote:

The income tax has come to stay. Its importance from the point of view of the professional auditor cannot be overestimated. Special skill, study, and experience are necessary to prepare the returns, and this means that in the future those most

conversant with the law and the procedures there-under will be intrusted with the preparation and super-vision of returns. . .

The following year he decided that concern about income tax had become so widespread that it would be necessary to bring out a book devoted to the subject.

The book, *Income Tax Procedure 1917*, was relatively small—only 461 pages—and was well received. One reviewer wrote that “it might perhaps be described as a guide to income tax practice in the light of the most recent developments of the art.” He further noted that until the various laws are authoritatively interpreted, Montgomery, “has not hesitated to discuss them frankly and incisively, and his comments...should be carefully studied by every corporation officer...and every accountant...” responsible for preparing returns. The book was revised annually until 1929. Other tax related books by Montgomery were:

Excess Profits Tax Procedure. 1920, 1921, and 1941.

Federal Taxes on Estates & Trusts. 1935, 1936, 1941, and 1956.

Federal Tax Handbook. 1932 through 1940.

Federal Tax Practice. 1929 and 1938.

Montgomery's Federal Taxes on Corporations and Partnerships. 1946 through 1951.

New York State Income Tax Procedure. 1921.

Montgomery's writing style was highly readable and often described as colorful. He said what he thought in vivid language which often drew highly critical reviews.

One critic wrote:

as to what the income tax ought be, and...he has frequent occasions to quarrel with the law. These are his apparent delight for he rarely misses one. It should not be assumed, however, that this leads him to misguide the reader as to the provisions of the law, for these are

always correctly stated. But much that he says is written in such a way as to tempt Litigation.

Montgomery urged taxpayers to comply with the law as written and constantly pointed out many areas, within the law, where there were deductions of which taxpayers were not taking advantage. He was an astute observer who had the ability to view the law, as written, in many logical ways. In his books he informed the taxpayers of these various possible interpretations and how they could be used to reduce their tax burden. It could be argued that his constant legalistic interpretations of the tax law and treasury rulings were contradictory to his criticism that Congress should make the law simpler. While he believed in the spirit of the law, all of his actions seemed to be based on the letter of the law. The tax law and its administration seemed to be a personal challenge.

In 1944, after many years as a critic of the income tax law, Montgomery reflected upon just what he had accomplished.

Before I started this preface (*Montgomery's Federal Taxes on Corporations 1944-1945*) I seriously gave myself what is known as the “once over.” Were all those long prefaces year after year worth while? Was I fulfilling some long felt want or was I merely pleasing myself? The conception of Don Quixote tilting at windmills naturally occurred to me. Am I Don Quixote or maybe am I a windmill? When we come to think about it (as we seldom do) there must be something in human nature which likes the idea of tilting at windmills, no matter how futile it may be when we analyze it in the cold light of the question, “What did the Don get out of it?”

The answer must be that when any one has a decent excuse for expressing himself and is believed to be sincere,

he will get at least a sympathetic hearing. And that may be all it amounts to. Nothing may seem to come of it. But every now and then a voice crying in the wilderness is heard.

And so I greet you for the twenty-fifth time and ask for a hearing on the subject of the federal tax law. I have never said it was all wrong. I have been criticized for criticizing it. As long as I think it is ninety per cent wrong, I propose to continue to criticize it.

Through the media of his speeches and

books Montgomery was able to exert considerable influence on public thinking about taxation and also create a favorable public image for himself. He was probably most gratified when the librarian of Lybrand's New York office wrote to the Government Printing Office to ascertain what recent publications on taxation had been issued, and the following reply was received: "We do not feel that we can give any information to your firm relating to income tax, as we have always thought your Mr. Montgomery was the foremost authority in this country on that subject."

IN DEFENSE OF THE OLD WAY OF TEACHING ELEMENTARY ACCOUNTING

by

Richard Vangermeersch
University of Rhode Island

After a significant number of years away from teaching elementary accounting, I returned to this interesting phenomena. The devastating rebuke to the old way of teaching the basic courses by the Accounting Education Change Commission led me to rethink the old ways. This rebuke arrived with the 150 credit hour issue, a significant drop in the quantity of business majors, and a very noticeable decay in students' ability to focus arising from the noise generated by MTV, VCRs, and Walkmen. After this rethinking, I not only have returned to my old ways of teaching by the building block approach, but I've become fascinated by the writings of some of the early American writers on teaching bookkeeping/accounting.

I have recently shown 21 early American books on bookkeeping/accounting for a session at the Northeast Region of the AAA. While 10 of those 21 books contained no or an insignificant preface to students, 11 did. I think the comments in

these 11 prefaces are even more needed today than they were in those days. The writers of these 11 books were actively involved in the continuous improvement of their students, some of which used the writer's text in his commercial school. I think you would find a brief summary of each of these 11 prefaces helpful in developing and testing your philosophy of teaching elementary accounting.

William Mitchell in 1796 really preached to the students. He expected every business person to be involved with accounting. He stressed: "No one should trust transactions of a pecuniary nature to his memory alone." Mitchell believed that bookkeeping gained discipline for the student, as much as any other course. "Discipline" may be the key word for us, as that which seems to be most needed by our students.

Thomas Turner in 1804 stressed that youth could master the subject of bookkeeping by double entry. This

learning should proceed one step at a time, so as not "...to embarrass and confuse their minds." Every youth of common capacity could master bookkeeping. I remain convinced that the basics of accounting are both important and capable of mastery by every college sophomore.

B. Sheys in 1815 held that bookkeeping is "...an art, with which all men ought to be acquainted." I've developed the saying "No one has ever been hurt by being basically sound in accounting, but countless people have been hurt by not being basically sound in accounting."

James Bennett, a noted teacher of the day, in 1820 stressed the need for good teaching of bookkeeping. He stated:

The principles on which the art is founded, ought to be stated with great simplicity, and scientifically explained. The steps in the progress should be easy, regular, and distinctly marked. The mercantile style should be rendered familiar and its propriety and elegance pointed out...

Benjamin Franklin Foster in 1836 started his text (and, in fact, included a similar quote on his title page) with this famous quote from Samuel Johnson¹.

There is no man, says Dr. Johnson, who is not in some degree a merchant—who has not something to buy or something to sell, and who does not therefore want such instruction as may teach him to preserve his affairs from inextricable confusion.

Foster started with first principles and then proceeded gradually. He suggested simulation of a business by issuing

fictitious notes to the students. After mastering inland transactions, the student was to be introduced to foreign exchange. Foster believed that the instructor should then bring the principles of "unimpeachable honor and probity: to the course and show "...that every sort of shuffling, trick, evasion, and duplicity, is inconsistent with the character of an honorable and upright man of business."

P. Duff in 1854 used another quote from Dr. Johnson. "Let not man enter into business while he is ignorant of the manner of regulating books. Never let him imagine that any degree of natural ability will supply the deficiency, or preserve multiplicity of affairs from inextricable confusion." Duff believed that the accounts in the ledger should be understood before the student began to make journal entries.

Ira Mayhew in 1856 believed that there would be less litigation in society if people kept good records. Mayhew felt that the wife or daughter of the businessman should be involved with the books. He stated: "It is generally claimed (and with a fitness that I will not question) that there is quite too much *sewing* practices, especially in all the higher walks of civic life..."

Levi S. Fulton and George W. Eastman, father of the founder of Eastman Kodak, stressed in 1856 "fixed determination to excel" for the student. "Do everything with the same attention to accuracy, neatness, and order, as would be important in active business. It is only in this way, that you will be sure to form correct

continued on page 24

¹Samuel Johnson (1709-1784) is considered by the editors of *The New Britannica Encyclopedia* to be possibly, after Shakespeare, the best known figure and the most frequently quoted in the whole range of the English language. He published *A Dictionary of the English Language*,... in four volumes. This dictionary has collected many quotes from many authors about a given word. My review of the words "accmpt," "accomprant," "account," "accountant," "accounting," "accrue," "bookkeeper," and "bookkeeping," did not yield the quotes mentioned by Foster and Duff. This search for the source of the accounting quotes attributed to Samuel Johnson will be continued at some future time.

HISTORY IN PRINT

Much accounting history research is published in periodicals and books other than those of the Academy. Knowledge of such research can be of value to Academy members for personal development and additional research. Readers of *The Notebook* are encouraged to help the editor to locate the many publications involving accounting history which should be listed in this column.

"Accounting Revolution at Oxford in 1882.

The case of a governmental deus ex machina," *Accounting and Business Research*, Vol. 22, Spring, 1992, pp. 125-32.

M. Aiken and A. Daynes, "A. C. Littleton's Very Long-term Perspective of Public Accounting Practice: Historical, International and Ethical Foundations," 235 *The International Journal of Accounting*, No. 1, 1990, pp. 1-18.

A. J. Arnold, "Secret Reserves or Special Credits: A Reappraisal of the Reserve and Provision Accounting Policies of the royal Mail Steam Packet Company, 1915-27," *Accounting and Business Research*, Vol. 21, Summer, 1991, pp. 203-14.

Jeanne F. Backof, "Historical Perspectives: Development of the Codes of Ethics in the Legal, Medical, and Accounting Professions," *Journal of Business Ethics*, Vol. 10, February, 1991, pp. 99-110.

T. J. Baldwin, "The Accounts of the Consett Iron Company, 1864-1914," *Accounting and Business Research*, Vol. 22, Spring, 1992, pp. 99-109.

Gordon Boyce, "Corporate Strategy and Accounting Systems: A Comparison of Developments at Two British Steel Firms, 1898-1914," *Business History*, Vol. 34, January, 1992, pp. 42-65.

Robert James Bricker, "The Sociology of Accountancy: A Study of Academic and Practice Community Schisms," *Accounting Horizons*, Vol. 4, March, 1990, pp. 1-14.

Frank Corcell, "Financial Statement Reporting—75 Years Ago," *The Practical Accountant*, Vol. 22, November, 1989, pp. 116+.

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John Richard Edwards, "Companies, Corporations, and Accounting Change, 1835-1933: A Comparative Study," *Accounting and Business Research*, Vol. 23, Winter 1992, pp. 59-73.

Richard Fleishman, "British Entrepreneurs and Pre-industrial Revolution Evidence of Cost Management," *The Accounting Review*, Vol. 66, April, 1991, pp. 361-75.

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N. M. Singhvi, "History of Taxation in Ancient India," *Journal of Accounting and Finance*, Vol. III, No. 2, Fall, 1989.

N. M. Singhvi, *Raja Todarmal and the Indian System of Accounting*.

N. M. Singhvi, *The Origin of Accounting in India*.

James St. Clair, "The Present Value of a Firm History," *Journal of Accountancy*, Vol. 169, January, 1990, pp. 120-122.

Scott A. Taylor, "Corporate Integration in the Federal Income Tax: Lessons from the Past and a Proposal for the Future," *Virginia Tax Review*, Fall 1990, pp. 237-310.

"The Development of Industrial Cost and Management Accounting Before 1850: A Survey of the Evidence," *Business History*, Vol. 33, January, 1991, pp. 35-57.

Judith Wale, "The Reliability of Reported Profits and Asset Values, 1890-1914: Case Studies from the British Coal Industry," *Accounting and Business Research*,

Wanda A. Wallace, "A Historical View of the SEC's Reports to Congress on Oversight of the Profession's Self-regulatory Prices," *Accounting Horizons*,

William L. Weis, "Luca Pacioli: Accounting's Renaissance Man," *Management Accounting*, Vol. 73, July, 1991, pp. 54-6.

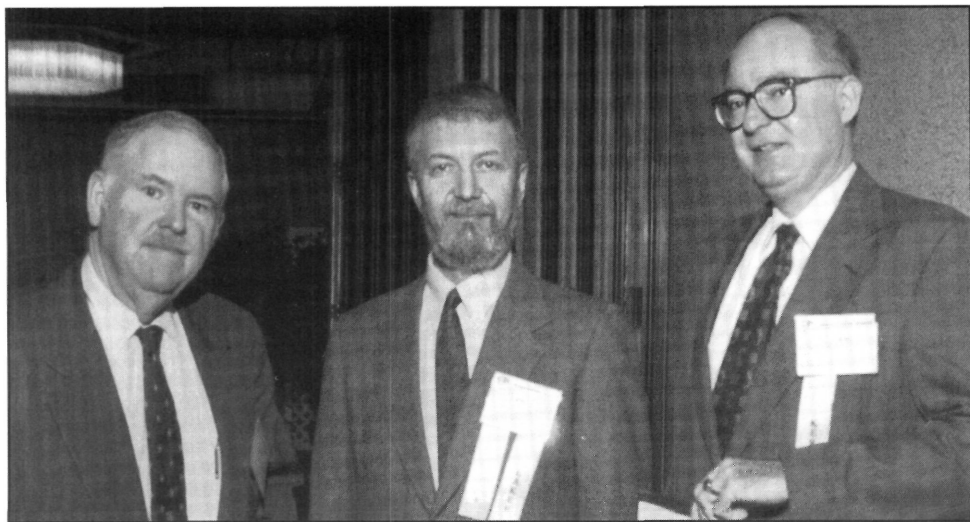


NORTHEAST REGION AMERICAN ACCOUNTING ASSOCIATION INDUCTS THREE MEMBERS INTO ITS HALL OF FAME

The Northeast Region American Accounting Association held its annual meeting in Providence, Rhode Island on April 22-24, 1993. This was the first meeting ever held by the NERAAA in Providence in its forty-two year history. The meeting was hosted by Mark Higgins and Richard Vangermeersch, 1993 Program Co-chairmen, and by the University of Rhode Island. As a part of the meeting, three more members were inducted into the NERAAA Hall of Fame. The three 1993 inductees were: John C. "Sandy" Burton, Professor, Columbia University, for his lifetime of service to the accounting profession and the NERAAA; Michael Schiff, professor-Emeritus, New York University for his chairing the 1964 NERAAA and for his long

and excellent record of scholarship in management accounting; and Richard Vangermeersch, Professor, University of Rhode Island for his long-time service to the NERAAA, his efforts as the archivist for the NERAAA, and his co-authorship, with Tony Krzytofik, of its history. The president of the NERAAA, Professor Philip Jagolinzer of the University of Southern Maine, presented certificates to Burton and Vangermeersch. Professor Schiff was unable to attend.

Additional copies of the Vangermeersch and Krzytofik history of the NERAAA were distributed. Individuals who would like a copy can get it from Richard Vangermeersch, 316B Ballentine, URI, Kingston, RI 02881. Telephone 401-792-4338.



Burton, Jagolinzer, and Vangermeersch

CONFERENCES, PERIODICALS, AND THINGS

Events are scheduled during the year of which individuals may have an interest. *The Notebook* may not be as helpful in providing information about these events as desired because of the timing of publication and of the event. However, the following items are presented for your general information.

CONFERENCES:

First International Conference on Contemporary Accounting Issues.

The conference is scheduled for January 6-9, 1994, in Taipei, Taiwan, Republic of China and sponsored by the National Chengchi University in Taipei. The conference intends to promote the exchange of academic ideas and practical experience among academicians, professionals, and practitioners from different countries. For information, please contact Professor Ting-Wong Cheng, Conference Executive Secretary, National Chengchi University, telephone number: 886-2-937-7731 or FAX number: 886-2-939-4044.

Academy of Business International Conference.

The Academy of Business is holding an international conference in London, June 3-8, 1994. Papers and panels on "Energy, Environment, and Technology" and "General Public Administration" will constitute the program. For information contact Bill Waugh, Georgia State University, telephone number: 404-651-3350, FAX number: 404-651-1378 or Thomas Vocino, Auburn University at Montgomery, FAX number 205-244-3826.

Accounting, Behavior and Organizations.

The ABO section of the AAA is sponsoring a research conference scheduled for March, 1994, in San Antonio, Texas. This conference is the first sponsored by the ABO section in North America. It will be a forum for the exchange of ideas among our diverse membership and a platform for the

next generation of behavioral research in accounting. For information, contact: Dr. Gail B. Wright, University of Richmond, telephone number: 804-289-8592 or FAX 804-289-8878 or BITNET WRIGHT@URVAX.

1994 Pacioli Quincentennial Celebration.

The pacioli Society offers a festive visit to Sansepolcro for the celebration of the 1994 Quincentennial. This is an excellent opportunity to see and enjoy Sansepolcro and to commemorate the 500th anniversary of Pacioli's treatise on accounting. The June 1994 Symposia are scheduled to coincide with the historical unveiling of the Carrara marble statue of Luca Pacioli. In addition to the paper presentations, there are side trips, city tours, performances, and festival feasting. The First Symposia is scheduled for June 19-23, 1994, and the Second Symposia is scheduled for June 26-30, 1994. For program and travel details and Symposia application forms contact: The Pacioli Society, Albers School of Business and Economics, Seattle University, Seattle, WA 98122 USA; telephone number: 206-296-5690 or FAX: 206-296-5795.

AMERICAN ACCOUNTING ASSOCIATION

1994 Regional Group Meetings

Mid-Atlantic

Dates: March 31-April 2, 1994
Location: Bally's Park Place,
Atlantic City, New Jersey
Program Coordinator: Eric G. Press
(215) 204-8127

Midwest

Dates: April 14-16, 1994
Location: Red Lion Hotel,
Omaha, Nebraska
Program Coordinator: Sandra Byrd
(517) 336-1101

Northeast

Dates: April 28-30, 1994
Location: Hyatt Regency Buffalo,

Program Coordinator: Ronald J. Huefner
(716) 645-3276

Ohio

Dates: May 6-7, 1994

Location: Ramada Hotel,
Columbus, Ohio

Program Coordinator: David K. Dennis
(614) 898-1461

Southeast

Dates: April 28-30, 1994

Location: Galt House,
Louisville, Kentucky

Program Coordinator: Betty C. Brown
(502) 588-7832

Southwest

Dates: March 2-5, 1994

Location: Hyatt Regency Dallas
Dallas, Texas

Program Coordinator: Joan D. Bruno
(713) 283-3107

Western

Dates: March 5-7, 1994

Location: Portland Marriott,
Portland, Oregon

Program Coordinator: Betty M. Chavis
(307) 766-2348

CALLS FOR PAPERS:

Advances in Accounting is an academic journal with the purpose to meet the information needs of both academicians and practitioners. Articles on a variety of current topics in financial accounting, auditing, and accounting education are appropriate for the journal. The editors are particularly interested in research devoted to the topics of human information processing and cognition and/or research employing behavioral methods. Articles may range from empirical to analytical and from practice-based to the development of new techniques. For information and to submit manuscripts, contact: Bill N. Schwartz, Editor-in-Chief, Department of Accounting, School of Business, Box 4000, Virginia Commonwealth University, 1015 Floyd

The Journal of Management Accounting Research is published by the Management Accounting Section of the American Accounting Association. Its objective is to contribute to improving the theory and practice of management accounting through promotion of high quality applied and theoretical research. The methodology used for publication may be analytical or empirical and can be related to internal reporting and decision making, the interface between internal and external reporting, profit and not-for-profit organizations, service, and manufacturing functions and domestic, foreign, and multi-national organizations. New theories, topical areas, and research methods are encouraged, including well-reasoned, thought-provoking non-empirical articles. For information and submitting of a manuscript, contact: Professor Chee W. Chow, School of Accountancy, San Diego State University, San Diego, CA 92182-0092 or telephone number: 619-594-5331 or FAX: 619-594-1573.

THE NEW TRANSLATION

For the first time an English translation of Pacioli's ennobled bookkeeping treatise will be offered. The translation is the Ph.D. dissertation of Jeremy Cripps and is being offered as a special commemorative translation in honor of Pacioli's 500th anniversary. Two special printings will be available. The first is a beautifully crafted, hand-set hot metal type, limited edition, bound by hand, and only 389 copies of it will ever be produced. The other volume is for reading and sharing among fellow accounting historians. Members of the Pacioli Society who would like to reserve a right to purchase at the time the volumes become available may do so. The limited edition version is \$300, with priority given to members of the society. The hard-cover trade edition is being offered at \$39.

Third, if accepted, the motion would lead to confusion with regard to prior pronouncements. This confusion, Grady stated, would result in the profession losing rather than gaining standards and quality of performance.

Finally, Grady said that the most serious result of the motion's acceptance would be the reversal of the philosophy that in the advancement of the written expression of what constitutes generally accepted accounting principles, reliance should be placed on persuasion rather than compulsion. Grady declared that compulsion would be a "colossal mistake." He identified the following three serious dangers of compulsion. First, the APB and the entire profession would lose much of the support and cooperation now given by business executives. Such an authoritative approach would lead businessmen to insist on a much greater role in the standard setting. Second, a situation of direct confrontation between the Institute and the SEC would be created. Grady questioned how pronouncements of the SEC which differed from the APB would be handled by auditors. A conflict between the Institute and the SEC could lead the SEC to use its full statutory powers. Third, compulsion would not enhance the standing of the APB and might cause heated resistance to its opinions and pronouncements.

The Resolution

In one of the longest debates in the history of the Council, forty-three members, including members of the Board who were invited, participated. Although the proposal dealt with a statement of principle, much of the comments concerned alternative methods of implementation. ("Council Adopts Resolution on APB Opinions," June, 1964) Jennings (August, 1964) said that, although the executive committee's intent was merely one of disclosing material variations from Board pronouncements, opponents had more

readily interpreted the motion. The debate made it clear to proponents and opponents of the motion that something needed to be done to clarify the situation. Thus, the Council was psychologically prepared for the resolution submitted by former president Louis H. Penney. The resolution was an amendment or substitute for the motion before the Council. Penney's resolution was:

...That it is the sense of the Council that reports of members (on financial statements) should disclose material departures from opinions of the Accounting Principles Board, and that the President is hereby authorized to appoint a special committee to recommend to Council appropriate methods of implementing the substance of this resolution. ("Council Adopts Resolution On APB Opinions," June, 1964, p. 9)

Jennings (August, 1964) believed the resolution was a compromise. While it specifically recognized that acceptance of an obligation to report departures was the most important issue, substantial authoritative support for a principle not accepted by the Board was not ruled out. A somewhat higher status was clearly perceived for opinions of the Board and is justified because of the careful research supporting the opinions.

Undoubtedly there was some misunderstanding of the motion. However, it does not appear that the opponents had misinterpreted the authoritative philosophy of the motion. The resolution was fundamentally the same as that originally passed by the Board in 1963 and later tentatively approved by the executive committee. In addition, Rule 2.02(e) of the Code of Professional Ethics already stated that a member or associate would be guilty of an act discreditable to the profession if he failed to direct attention to material departures from generally accepted accounting principles.

The Council adopted the resolution, and

president Heimbucher quickly appointed a special committee. The committee was chaired by William W. Wertz and included Albert J. Bows, Paul Grady, John R. Ring, J. S. Seidman, Maurice Stans, and Glenn A. Welsch. Its charge was to recommend appropriate methods of implementation of the resolution. ("Committee Appointed to Implement Council Resolution of APB," August, 1964) As the committee began its deliberations, Mr. Wertz died, and Mr. Seidman was named chairman of the committee. The committee would become known as the Seidman committee. Apparently Carman G. Blough was added to the committee as Carey identifies (Carey, 1970) Mr. Blough as a member.

Other leaders in the profession of accountancy, such as Weldon Powell, (September, 1964), and Carmen Blough (Minutes: Spring Council Meeting), also spoke against uniformity and absolutism. Powell, a senior partner of Haskins & Sells and an acknowledged authority on accounting theory, (Carey, 1970) had served as the chairman of the special committee on research program which led to the establishment of the Accounting Principles Board, ("Special Committee on Accounting Research Program," August, 1958) and served as the first chairman of the APB, 1962-1963. Powell was also a close friend of Grady from their days as fellow students at the University of Illinois.

The strong stance of Grady before the Council significantly contributed to the substitute resolution and the establishment of the special committee on accounting principle board opinions. Grady apparently agreed with, or at least accepted, the resolution. His primary opposition was to the position that only pronouncements of the Board were generally accepted accounting principles. His experience in the establishment of auditing standards, lead Grady to believe that final approval of principles resided with the members of the

Institute. Failing a general vote, approval by the Council was the best alternative. (Previts, 1986)

Grady's Dissent

The special committee adopted a position which Grady believed would have vested total authority in the Board and compulsion to assure adherence. Grady was the only dissenting member. He discussed the issue with the president-elect of the Institute, Thomas Flynn, and convinced Flynn that he was right and the rest of the special committee was wrong. Flynn supported Grady's position and proposed formal amendments to the special committee's report at the Institute's Council meeting. (Zimmerman, 1978)

The amendments proposed by Flynn were discussed with and approved by president Heimbucher and the executive committee prior to the meeting of the Council in October, 1964. The first amendment called for further study on whether disclosure provisions should be made enforceable under the Code of Professional Ethics. There was no dissent on this amendment. The second amendment provided that disclosure of departures might be made in footnotes to the financial statements, in which case no disclosure was necessary in the auditor's report. This amendment received much discussion. ("American Institute Council Acts on Recommendation For Disclosure of Departures from APB Opinions," November, 1964)

The amended report of the special committee included several key points:

1. Generally accepted accounting principles were those which have substantial authoritative support.
2. Opinions of the Accounting Principles Board constitute substantial authoritative support.
3. Substantial authoritative support can exist for accounting principles that differ from Opinions of the Board.

4. No distinction should be made between Accounting Research Bulletins and Opinions of the Board.
5. If an accounting principle which differs materially from an Opinion is used in financial statements, it must be determined if the principle has substantial authoritative support and is applicable in the circumstances.
 - a. If it does not, the member would either qualify his opinion, disclaim an opinion, or give an adverse opinion as appropriate.
 - b. If it does have authoritative support, an unqualified opinion would be given and the fact of the departure from the Opinion would be disclosed in a separate paragraph in the report or in a footnote to the financial statements.
6. A notation should be included in each Opinion of the Board that material departures therefrom should be disclosed.
7. Failure to disclose a material departure from an Opinion is deemed to be substandard reporting.

As a result of the overwhelming approval of the amended report, Grady believed that his position was supported by the Council. This led Grady to conclude that the special committee had been "stacked" to achieve compulsion, but that he had successfully thwarted their efforts. (Zimmerman, 1978) He (October 20, 1966) stated that the amended report "recommended no substantive change in the authority of the APB and, in effect, reaffirmed the statement of the 1958 committee, included in the board's charter,..." Grady had been a member of the special committee on accounting research program which led to the establishment of the APB and its charge "to determine appropriate practice and to narrow the areas of difference and

inconsistency in practice" and to accomplish its goals by reliance "on persuasion rather than on compulsion." Grady said that the profession should be thankful that the members of the special committee and Council "had the common sense and good judgment not to follow the substantial step toward compulsion recommended by the Executive Committee of the AICPA."

The amended proposal was approved on October 2, 1964, and was attached (Appendix A) as a special bulletin, entitled, "Disclosure of Departures From Opinions of Accounting Principles Board," to *APB Opinion No. 6*, "Status of Accounting Research Bulletins." Effective December 31, 1965, members of the Institute were required to disclose departures from APBs and ARBs which would materially affect the financial statements as a separate paragraph in the opinion or as a footnote. This was not included in the Code of Professional Ethics until 1972 with the adoption of Rule 203 requiring all members to disclose and justify departures from the Opinions of the APB.

Conclusions

The actions taken by the Council in 1964 do indicate a change in attitude toward the authority of the APB. The APB had been essentially operating under the same authority as had existed for the pronouncements of the committee on accounting procedure. With exception of cases in which formal action was taken by the Institute membership, the authority of opinions rested on their "general acceptability." The committee on accounting procedure stated 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." (*Accounting Research Bulletin No. 43*, p. 9) The position that the opinions of the APB constitute substantial authoritative support and departures having a material effect on financial reporting must

be disclosed clearly strengthened the authority of the APB. Certainly, pronouncements were no longer completely dependent on "general acceptability" nor persuasion or influence. However, uniformity and compulsion were not achieved to the extent that the motion before the Council would have indicated to be feasible.

The compulsory approach appears to have been an overreaction to the problems and criticisms faced by the APB and would likely have been a poor decision on the part of the Institute. As Powell (September, 1964) had indicated, the time was not right to make the APB pronouncements binding. Despite the differences of opinion regarding the committee report, the final vote on the amended report was unanimous, and members of the Council, on both sides of the debate, agreed that it was a significant step toward improvement of financial statements. ("American Institute Council Acts on Recommendation For Disclosure of Departures from APB Opinions," November, 1964)

It would be difficult to believe that the special committee had been intentionally "stacked" given the professional character of the men involved. In addition, the nature of the amendments proposed by Flynn do not appear to be as significant as indicated by Grady's comments. However, Grady (October 20, 1966) stated that "the contest of persuasion vs. compulsion...has been resolved in a fully satisfactory manner."

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ANU ARCHIVES OF BUSINESS LABOUR

Professor Russell Craig of The Australian National University advises American historians of the ANU Archives of Business and Labour and invites members of the Academy to take advantage of the extensive holdings of historical materials. The ANU Archives is the largest of its kind in Australia.

The Archives of Business and labour was formed as part of the Economics Department of the Research School of Social Sciences in the early 1950s to collect primary research material of economic development of Australia after the gold rushes of the nineteenth century. In 1957 the Archives became a Unit of the Research School and soon afterwards extended its operations to include the records of the labour movement. The Archives now holds records from over four hundred trade unions, associations, employer and industry organizations and companies.

In addition the Archives holds a considerable collection of ephemeral

publications with particular emphasis on Australian socialism. There are some runs of Australian newspapers and of serials which reflect the two main collecting themes—companies and trade unions. The total holdings of the Archives now exceed eight linear or shelf kilometers.

Holdings are classified in two groups: (1) records of employee, employer, industrial, and professional organizations; and (2) records of companies and firms. The organizations group holdings include various items such as minutes, membership records, financial and general records, and other types of documentation. The companies group holdings include such things as financial records, correspondence, minutes, and other documentation.

Information about the ANU Archives may be obtained from: Archives Officer, ANU Archives of Business and Labour, GPO Box 4, Canberra, ACT 2601; Telephone (06) 249 2219; Fax (06) 249 0140—if not answered (06) 257 1893.



A THOUGHT FROM THE PAST

"History abhors determinism, but cannot tolerate chance."

—Bernard De Voto, American author, journalist and critic
(1897-1955).

THE COST HERITAGE

The Costing Heritage: Studies in Honor of S. Paul Garner, Monograph No. 6 was published in 1991 by the Academy of Accounting Historians to honor Dr. Paul Garner on the occasion of his eightieth birthday and his contribution to accounting. The monograph is edited by O. Finley Graves of the University of Mississippi. Its contents include the studies primarily in the history of cost accounting and two tributes to Dr. Garner.

The monograph is priced at \$15 for individual members and \$20 for institutional affiliates. Orders and inquiries may be made to: Doris M. Cook, The Academy of Accounting Historians, Department of Accounting, University of Arkansas, Fayetteville, Arkansas, 72701, USA. Checks should be made out to The Academy of Accounting Historians and accompany the order.

Teaching: continued from page 14
business habits.”

S. W. and S. H. Crittenden believed in 1858 that bookkeeping would become as staple a commodity in education as arithmetic and grammar. (What happened?) Their philosophy was best expressed by “Each successive exercise is intended to be a step of progress in the science, but yet so short and easy a step that what has already been explained shall be inductive thereto, and aid in its achievement.”

H. B. Bryant and H. D. Stratton, with S. S. Packard, in 1863 were filled with zeal (almost religious in nature) about bookkeeping. (Please refer to an extended coverage of this book in the Spring, 1993 issue of this publication by John S. Ribezzo.) They wrote:

In conclusion, we could say to the young men, and particularly to such as are about entering upon busy life: Be in earnest. Whatever is worthy of your attention at all, is entitled to your best energies of thought and action. Do not despise the day of small things. If you would be sure of success in any department of life, earn it....

George Soulé in 1901 also quoted Dr. Johnson. Soulé was just as fervent as Bryant, Stratton, and Packard.

...Do all these things, and whether you achieve success now or hereafter in the battle of life, you will enjoy the consolation that proceeds from the consciousness of duty faithfully performed, the respect and esteem of all honorable men, and the appropriation of Him to whom you must render our last Balance Sheet.

Perhaps it is time to respond like Henry Rand Hatfield did 70 years ago that bookkeeping/accounting is a vital subject that needs to be taught basically and with good work habits and ethics.

Be careful AECC on what you try

to change; as you may be killing the dog to cure its mange.

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et al.: Accounting historians notebook, 1993, Vol. 16, no. 2
**THE EXETER CHURCH AND MEDIEVAL
PERIODICAL REPORTING**

by
Garry Favel

A translation of the accounting records of the Exeter Cathedral from the years 1279-1353 (Erskine, 1981), provides one with an elucidating description of this church's organization and the extent of its fiduciary accountability.

The records include annual reports. An example is "The Account of Dom Robert de Asperton concerning the Network of the Church of the Blessed Peter of Exeter beginning from Sunday after the feast of St. Michael 1301 ending on Sunday after the feast of Michael 1302" (op. cit., p. 17). This report shows weekly expenses and quarterly totals. These periods represent an early example of quarterly reporting and are titled Michaelmas, Christmas, Easter, and Midsummer.

The notion of quarterly reporting is further strengthened by the evidence of quarterly "balance-day" transactions. In week fourteen of the midsummer term (1302-3) the same Robert recorded the cost of maintaining the horses for that period, such as "fariery of the horses for the whole term 9d,... horse-shoes from our own iron for the term 14d... (and) wages of Roger the mason for this term 30s" (op. cit., p.28). Similar transactions appear at the end of each term or quarter.

No differentiation between current and capital expenditure is provided which is often a shortcoming of analysis of historical records (Marriner, 1980 and Lee, 1975). Nevertheless, detail of the data provides potential evidence that church representatives were expected to record and account for the treasury under their direct control.

A majority of the content of these accounts relates to expenditures in church construction, thus the physical fibre of such medieval buildings may be construed. In the Michaelmas term (1301-2), the same Robert

records a payment of 2s 6d to three laborers "for making iron bars for the windows" (Erskine, p. 17), and in the fourth week of the midsummer term (1302-3) "wages of a smith for ironwork on the door of the choir 6s, (and)... iron for making the requirements of the high windows 7s 4d" (op. cit., p. 28).

The expenses per quarter are totalled and matched against yearly receipts. The receipts, no matter how small are detailed and provide one with an understanding of the funding of the institution's building operations. At the end of a defined reporting period, there is a calculation of how much is owed and carried over in arrears. This amount appears as an opening balance at the head of Robert's ensuing report (1303-4) as 82 6s 51/4d (op. cit., p. 29).

Through an analysis of the detail and timeliness of these reports, it is possible to ascertain the activities of agents of the Exeter Church from the late thirteenth to the mid fourteenth centuries. Though it is possible that such detail is a by-product of statutes pertaining to general Cathedral organization and stewardship, the extent of the precision and accountability exuded therein cannot be overlooked.

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The following note was taken from the preface to "Key to Bookkeeping," by Ira Mayhew Eclectic Educational Series, published by Van Antwerp, Bragg & Co., 1884.

ECLECTIC EDUCATION - 1884

The schools of a country should teach what its children and youth will need to know and practice on leaving them. Less than fifty years ago the principal branches taught in our public schools were reading, writing, and arithmetic. But times have changed. The courses of study in the improved schools of the present time have been much extended, but not always wisely. Branches that were formerly of minor importance have now become essential. Among them is Bookkeeping, which, thirty-five years ago, was not authorized as a public school study, even in the city of New York. With railroads now traversing our widely extended country in all directions, and with the telegraph, the telephone, and cheap postage, the buying, selling, and exchange of products have been greatly multiplied, thus making neighbors of persons hundreds and thousands of miles apart. As a consequence,

in every portion of the country the comforts and luxuries of other parts of it are common. This easy interchange renders the knowledge and practice of Bookkeeping a necessity of the times.

Besides, Bookkeeping gives a mental discipline equal to that gained from the study of any other branch, and superior to that realized from the study of most branches. Double-entry Bookkeeping, while a science, deserves to rank among the fine arts. It challenges the admiration of lovers of the beautiful and the true. It cultivates the judicial powers of the mind. It quickens and strengthens the love of justice and equity. It promotes fair dealing among men. It contributes to private and public virtue. It leads to economy and thrift in private and public affairs. Its general study and practice will reduce pauperism and crime, and promote frugality and virtue.



As one might expect, "there is a lot of history in annual reports." Al Roberts, co-director of the Accounting History Research Center at Georgia State University, provides the following commentary as an example. It is taken from the 1957 Annual Report of The United States Playing Card Company of Cincinnati, Ohio.

ACCORDING TO HOYLE

Some four decades before the American Revolution, there existed in London a number of coffee houses in which the gentry and merchant classes gathered to sip chocolate and coffee, to talk, and to play Whist, the increasingly popular card game destined to be the forerunner of Auction and Contract Bridge and other trump

games of the partnership family. One of the habitués of the Crown Coffee House on Bedford Row was Edmond Hoyle, a middle-aged lawyer.

Hoyle became so proficient at Whist that he decided to teach it and forego the practice of law. History repeated itself two hundred years later when Charles Goren

turned from law to become America's great Bridge player and author. Hoyle demonstrated the fine points of the game to the lords and ladies of the time for "very stiff prices." In 1742, he published his first book with the imposing title "A Short Treatise on the Game of Whist, Containing the Laws of the Game, and also Some Rules Whereby a Beginner May, with Due Attention to Them, Attain to the Playing It Well."

A few years later, he came out with the initial edition of Hoyle's Games, giving rules and advice on five games of skill—Whist, Chess, Backgammon, Quadrille, and Piquet. Thus he pioneered in the authorship of a clear and scientific presentation of the rules, ethics, and strategy of games as we understand them today. His technique was amazingly modern, since he based it on the Laws of Probability, and his principles still are as sound as ever. In fact, his Code of Ethics and Fair Play from the Treatise on Whist is included, almost verbatim, in the Laws of Auction and Contract Bridge.

Hoyle's books were best sellers in the eighteenth century and his fame was recorded by noted contemporary authors and artists. He was lampooned in a play called "The Humours of Whist, As Acted Every Day at White's and Other Coffee Houses and Assemblies." His teachings were mentioned in *The Rambler*, *The Gentlemen's Magazine*, *The Connoisseur*, and in Henry Fielding's novel "Tom Jones." Hogarth, the famous British painter, pictured Hoyle on Whist in one of his canvases, and the illustrious poet, Lord Byron, paid him perhaps the greatest tribute of all when he wrote in "Don Juan" that "Troy owes to Homer what Whist owes to Hoyle."

Largely as a result of Hoyle's efforts, Whist thrived not only in the fashionable salons and clubs of London but in the little villages and towns scattered throughout the English countryside. Whist societies

sprang up everywhere to band together devotees of the game, and a "rubber of Whist" soon became a popular form of home entertainment.

His association with card-game rules created such a reputation for Edmond Hoyle that he is now quoted as an authority on Poker, Pinochle, Rummy and Canasta—all unknown in his day. Each new book of rules published on card and board games is invariably called a "Hoyle." The United States Playing Card Company, for example, at intervals over the sixty-three years of its corporate existence, has published fifty editions expanding and modernizing the original Hoyle's Games. The last thirty-nine of these have included Hoyle's name in the title.

Because of the large volume distributed annually by the Company, this series of publications, now termed "The Official Rules of Card Games—Hoyle Up To Date," still ranks as high in the list of best sellers as did the original many years ago. Little wonder then that when Edmond Hoyle died in 1769 "full of years and honours," his accomplishments had made his name a household word. To this day it is synonymous with correct procedure in anything whatsoever.



**WANTED
MANUSCRIPTS AND ITEMS OF
INTEREST**

Anyone wishing to submit short article manuscripts, notes, cartoons, shaggy dog stories, letters to the editor, or other items to THE ACCOUNTING HISTORIANS NOTEBOOK should send the material for consideration to the editor, Elliott L. Slocum, School of Accountancy, Georgia State University, University Plaza, Atlanta, GA 30303.

LA HISTORIA DE LA CONTABILIDAD 16TH ANNUAL CONGRESS OF THE EUROPEAN ACCOUNTING ASSOCIATION

El XVI Congreso Anual de la Asociación Europea de Contabilidad was held in Turku, Finland on April 28-30. During the meeting of the executive committee of the Association, the delegation from Spain proposed the establishment of a History of Accounting Section. Interest appears to be very positive for such a special interest section.

Ten history research papers were presented on the program. These ten papers are of interest and are listed as follows:

"An Antecedent of Double-entry Bookkeeping: The Accounting System of a Tenth Century Muslim Administrative Office," Shaari Hamid, Russell Craig, and Frank Clarke.

"The Accounting System Practiced in the Near East during the Period 1220-1350," Cigdem Solas e Ismail Otar.

"The Cely Shipping Accounts: An Investigation into Trade, Profit and Trends in Late Fifteenth Century Shipping," Keith Hooper.

"Comments on Some Obscure or Ambiguous Points of the Treatise De Computis et Scripturis by Luca Pacioli," Esteban Hernandez Esteve.

"The First Australian Book on Accounting: James Dimelow's 'Practical Bookkeeping,'" Garry D. Carnegie and R. H. Parker.

"The Role of Professional Accountants in Industrial Development: A Critical Examination of the Evidence," Malcom Anderson, John Richard Edwards, and Derek Matthews.

"Insiders and Outsiders: Occupational Rivalry in Accountancy in the UK, 1900-1930," Linda Kirkham and Anne Loft.

"The Evolution of Financial Accounting in Belgium During the First Half of the Twentieth Century. Examples from the Coalmining Industry," Ignace De Beelde.

"Historical Development of Company Law: The Case of Belgium," Yves De Ronge, Emmanuel Henrion, and Claude Vael.

"Toward a History of Accounting Histories: Perspectives From the Italian Tradition," Luca Zan.

The Congress ended with the announcement that the 17th Congress will be held in Venice, April 6-8, 1994 en La Zitelle, Centro Culturale di Esposizione e Comunicazione.

A THOUGHT FROM THE PAST

"History owes its excellency more to the writer's manner than to the material of which it is composed."

—Oliver Goldsmith, British poet, dramatist and author (1728-1774).