Tips for Busy Readers

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Mr. Barr is Chief Accountant for the Securities and Exchange Commission, but is expressing his own views as he reviews the effects the requirement of the regulatory agencies have had on some of the major phases of accounting practice.

When the Securities Exchange Act was first proposed many practicing accountants expressed real concern that uniform accounting requirements would be imposed on all industry, thus following the pattern of the uniform system of accounts required of all railroads. The rules included in the Securities Acts as finally adopted gave the Commission authority over accounting records only in general terms; supplementary regulations have included more specific regulatory powers in certain areas.

While the SEC was the first Federal agency with the authority to require that financial statements be certified by independent accountants, more and more of the Federal agencies are now requiring such certified statements. In the older agencies which exercise regulatory control through a uniform system of accounts, an independent audit is not usually required. However the author feels, that even under such conditions, the requirement of an audit by a certified public accountant would provide a very effective check on management.

Rather than striving to obtain uniformity in financial reporting, the SEC has attempted to promote clarification and general acceptance of accounting principles. While complete agreement as to the application of accounting principles will probably never be achieved on some questions, the author feels the profession and the agencies should constantly strive to reduce these areas of disagreement. Verification and pricing of inventories, charges against income arising from stock options, and disclosure of liabilities assumed under long-term leases are some of the questions he discusses as representative of the areas where complete agreement has not been reached.

While at one time the SEC required quarterly reports on operations, such interim reports were found to work an undue hardship in some areas. Later this requirement was changed to a mid-year report giving certain data on summarized earnings; the Commission recognized estimated figures would be used in the preparation of such reports, and so exempted them from liability for misleading statements under Section 18.

Constantly changing conditions in the business world make it necessary that the regulatory agencies and the accounting profession cooperate in giving effect to such changes as they are reflected in the accounting records. Observation of the earlier statements filed with SEC, as contrasted with those which meet the present requirements, will reveal that progress has been made in keeping pace with a constantly changing economy.

FINANCIAL CONTROL IN LOCAL LABOR UNIONS, by Wade B. Salisbury. N.A.A. Bulletin, May, 1960 (Section 1)—Vol. XLI No. 9, pp. 49-61.

Recognizing the large sums of money which pass through union treasuries, this paper is devoted to suggestions on ways to improve the accounting records and the control of union funds. Legislation recently enacted, aimed at establishing a basis of control through financial reporting, has not yet disclosed the exact reporting requirements.

The financial reports on union funds should be so presented that the rank and file of union members may fully understand the facts disclosed. The author suggests fund accounting, which is required by some international unions, might also be used by local unions. He assumes a typical situation with three funds being used—the general fund, strike fund and the death benefit fund. A chart of accounts to be used with each of the above funds, together with exhibits of typical financial statements, are included.

The author recommends a budget be prepared and used by management as a key to control. Membership statistics will provide the basis for forecasting the major source of cash receipts; while cash disbursements are not as easily predicted, with careful study and cooperation fair estimates may be made. Adaptations of the fundamentals of a good system of internal control are suggested, as they may apply to the activities of a typical local union.