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Remarks before The University of Hartford Society of Accounting Students

Leonard M. Savoie

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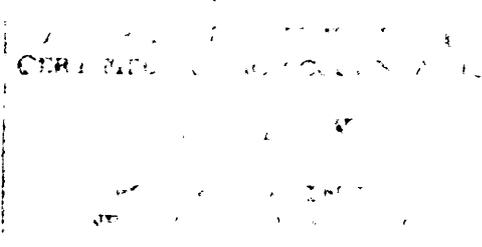
Remarks of Leonard M. Savoie
before
The University of Hartford Society of Accounting Students

I am happy to accept this award from the University of Hartford Society of Accounting Students. I am accepting it on behalf of the American Institute of Certified Public Accountants, which I represent. Any contributions I may have made to the betterment of the profession have been simply part of the job I hold as spokesman for the Institute and coordinator of technical activities. So in recognizing me, you are really honoring the organized profession.

I commend all of you accounting students for your interest in our profession. The demand for college graduates to enter the field of accounting has never been higher, while the demand for business school graduates generally has declined.

More important than the record-high incomes awaiting you who will graduate with an accounting degree is the exciting prospect of starting a career in this profession. The practice of public accounting is the only true profession within the field of business.

Two elements make accounting unique among professions. One is the Uniform CPA examination, which is prepared and graded by the American Institute of CPAs. It serves as the qualifying examination for entry into the profession in every one of the fifty states.



The other unique feature is the role of the American Institute in setting the technical standards which guide CPAs in the practice of public accounting. The Accounting Principles Board of the American Institute issues formal opinions on accounting principles. These must be followed by members of the Institute in reporting on the financial statements of their clients. Strong allies in the enforcement of these standards are the Securities and Exchange Commission and the stock exchanges, which generally will not permit companies to file statements on which the independent auditor takes exception.

The Accounting Principles Board has underway a major program for reform and improvement in corporate financial reporting. The consequences of an APB Opinion can mean a difference of millions of dollars in the reported income of a corporation. Because of this role in setting accounting standards, the profession is experiencing what in the jargon of today is known as a high profile.

Take the APB proposal on accounting for business combinations, which has drawn widespread public attention. The proposal was exposed broadly for comment last February, and final action is planned for early summer. It would go far toward requiring full accountability for the costs incurred in the acquisition of a business. Under present practices, substantial costs are often submerged through use of the pooling of interests method. Also, the purchase

method can be used to relieve future income of costs through failure to allocate acquisition costs to tangible assets and failure to amortize intangibles, including goodwill.

Since the Board's proposal would curb these practices, it has met with disfavor from many businessmen, but it has SEC backing and the support of several segments of the public that have been urging accounting reform. Business Week recently reported, "In the pooling of interests squabble, the accountants are expected to prevail, despite their many critics."

Another effort of the American Institute is just beginning to be noticed, and it should be of special interest here in Hartford, the insurance capital of the nation. This has to do with accounting for life insurance companies. The industry is subject to regulations which have been designed primarily to assure protection of policyholders. While this is commendable, the regulatory form of financial reports is not necessarily a fair presentation for investors.

Insurance regulatory requirements are such that a vigorous growing company, which is acquiring new business, will be reporting meager income or possibly a loss. At the same time, a moribund company, which is suffering a decline in volume of business, may be showing huge profits. This is a situation we in the accounting profession find intolerable, particularly since insurance companies are increasingly turning to CPA firms to add credibility to their financial statements.

To correct the deficiencies in reporting to insurance company investors, an American Institute committee is working with insurance industry associations to develop improved rules for matching costs with revenues of life insurance companies. Good progress has been made, and new rules could be in force by the end of the year.

The proposals would call for a new format for the income statement, not simply an adjustment to the regulatory form. Costs of acquiring new business would be spread over the periods in which premium income is recognized. Interest assumptions would be more realistic. Marketable securities would be carried at market values, with the unrealized appreciation or depreciation included in income currently on a spreading basis. The Chairman of the Accounting Principles Board, whose approval is necessary, has not yet considered the proposal, but will be doing so soon.

These and other programs underway make for exciting days in the practice of public accounting. Those of you who are about to leave college can join us in a professional career that is rewarding in many ways.

I have enjoyed being here with you tonight, and I thank you for the honor you have given me.

April 28, 1970