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Case for Partial Tax Allocation: Will Enhance Comparability and Add Relevance

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The Case for Partial Tax Allocation

Will Enhance Comparability and Add Relevance

by Jerry G. Kreuze and Daphne Main

Accounting Principles Board (APB) Opinion No. 11, "Accounting for Income Taxes," concluded that "comprehensive income tax allocation is an integral part of the determination of income tax expense."[1] Thus, income tax expense includes the tax effects of transactions entering into the determination of pre-tax accounting income for the period even though some transactions may affect taxable income in a different period. Since permanent differences[2] do not affect other periods, interperiod tax allocation is only applicable to timing differences. By definition, timing differences originate in one period and reverse in one or more ensuing periods. Consequently, the Financial Accounting Standards Board (FASB) in its *Discussion Memorandum*, "Accounting for Income Taxes," stated that timing differences reverse.[3]

Although on an individual basis timing differences do reverse, they do not, in all cases, reverse either in total or on a similar timing difference basis. This article will explore the above controversy from numerous vantage points. Attention especially will be given to both the Conceptual Framework project and the cited FASB *Discussion Memorandum*, "Accounting for Income Taxes." Because comprehensive income tax allocation is presently required, the discussion and arguments presented will be directed against the comprehensive method and for the partial income tax allocation alternative.

Permanent Deferral of Tax Credits

APB Opinion No. 11 reviewed the conceptual merits of three different methods of interperiod income tax allocation and required the deferred method. The net-of-tax method was rejected because it conflicts with the general principle of not offsetting related assets and liabilities on the balance sheet. The liability method was discarded because of the inherent problem of estimating both future corporate profits and Congressional action. While empirical studies on the behavior of deferred tax account balances (some of which are briefly summarized below) were based upon the tax credits created under the deferred method, their conclusions would hold equally well under both the liability and net-of-tax methods. These studies refute many of the arguments supporting comprehensive allocation of income taxes.

In one of the earliest and better known studies on the behavior of accumulated tax deferrments arising from timing differences, Price Waterhouse and Company[4] concluded that to ensure fairly stated financial statements for both buyers and sellers alike, interperiod income tax allocation should only be applied to those timing differences which are reasonably certain to affect the flow of corporate resources in the near future.

Addressing only depreciation timing differences, Davidson[5] analyzed the behavior of the deferred tax account balances for both static and steadily growing firms through the use of a simulation. While the static firm followed a constant replacement policy of its original fixed assets, the steadily growing firm increased its investment in depreciating assets at a rate of 5 percent annually. For both firms, an accelerated depreciation method was used for tax purposes[6] and the straight-line method was used for financial reporting purposes. Based upon his findings, Davidson concluded that "there will be no liability for future taxes for static or growing firms if depreciation provisions of the tax laws remain unchanged (or become more generous) and a regular policy of investment in depreciating assets is maintained."[7]

Although Davidson had shown that the existence of future tax liabilities depends mainly on the trend over time of the firm's expenditures on depreciable assets, he provided no conclusions where asset expenditures are lumpy or cyclical over time. In response to this void, Livingstone examined the effects of cyclical set expenditures on the deferral of income taxes which are associated with the use of accelerated depreciation for tax purposes.[8] His simulation model which considered both linear and nonlinear trends in asset expenditures over time yielded information which suggests that even in the presence of severe cycles, a strong growth trend in asset expenditutes produces no repayment of deferred taxes. In fact, if cycles are not severe, even a modest growth rate in asset expenditures may be sufficient

to avert deferred tax liabilities.

While Price Waterhouse, Davidson, and Livingstone engaged in empirical research to determine the conditions necessary for permanent deferral and the extent to which it exists, Buckley compared the growth rate of the deferred tax account to the growth rate of owners' equity and total assets.[9] Finding that the growth rate in the deferred tax account was between 200 to 300 percent per annum greater than in owners' equity and total assets, Buckley concluded that the application of comprehensive tax allocation has resulted in excessive growth of the deferred tax account with resulting higher debt-equity ratios and lower reported earnings.

In a more recent study, Davidson, Skelton, and Weil measured the changes in the deferred tax account for 3,108 firms on the *Compustat* tape for the 19-year period 1954-1973.[10] Of the 18,184 changes observed, 14,288 (79 percent) were increases and 3,896 (21 percent) were decreases. In dollar amount, while the increases were approximately $39.5 billion, the decreases were only $5.9 billion. Or in other words, the dollar increases were more than six and one-half times as large as the dollar decreases.

Finally, an Ernst & Whinney study of 250 companies revealed that deferred taxes rose from 9% to 26% of shareholders' equity during the inflationary 1970's. The above studies amply suggest that "those who argue in favor of blanket tax allocations are on shaky ground."[11]

The 1981 Economic Tax Recovery Act and Inflation

Because depreciation differences cause the largest and most frequent differences between pre-tax accounting income and taxable income for many companies,[12] they have been the subject of much debate. Even when the *Internal Revenue Code of 1954*, which allowed accelerated depreciation for tax purposes, was enacted, estimates of possible future revenue losses to the federal government were being made. The Joint Economic Committee reported "one estimate ... showed the loss attributable to accelerated depreciation methods rising from about $375 million in fiscal 1955 to $2.2 billion in fiscal 1960, falling thereafter until 1969 for a cumulative loss of $19 billion."[13] In addition, the Committee acknowledged that the annual revenue loss would continually grow and never decrease as estimated if a constant increase in new investment was maintained. Similarly, E. Carey Brown predicted "the revenue losses would amount to over $2 billion in the fifth year, over $4 billion in the tenth, nearly $4 billion in the fifteenth, and $2 billion in the twentieth. The revenue loss would then grow at 3 percent per year."[14]

The cumulative impetus of inflation and the 1981 Economic Tax Recovery Act depreciation schedules will both tend to escalate the above estimates of possible revenue losses to the Federal government. Specifically, the Accelerated Cost Recovery System (ACRS) allows companies to deduct the cost of depreciable assets over periods ranging from three to fifteen years. Because these write-off periods often do not correspond with the estimated useful life of individual assets, many companies may be dealing with deferred tax accounting for the first time.

Table 1 contrasts the new ACRS depreciation schedule with the pre-ACRS useful life depreciation schedule for equipment costing $100,000 with a ten-year useful life and a $10,000 estimated salvage value. Although the equipment is depreciated over five years for tax purposes to comply with the ACRS depreciation schedules, it is depreciated over its useful life on the straight-line method for financial reporting purposes. In addition, because the company, prior to the 1981 Economic Tax Recovery Act, depreciated its equipment under the double-declining balance method for tax purposes, that depreciation method is utilized to compute the pre-ACRS depreciation deductions.

The ACRS provides for depreciation at a rate of 15 percent, 22 percent, 21 percent, 21 percent and 21 percent of the cost of the equipment for the years 1, 2, 3, 4 and 5, respectively. It is assumed the company elected to receive a 10 percent investment tax credit which thereby caused the asset's depreciable basis to be reduced by $5,000 (½ of the $10,000 investment tax credit taken) to $95,000, as required under the new ACRS provisions. For each method, the tax depreciation is compared to the straight-line depreciation on both an annual and a cumulative basis. Even though the ACRS cumulative excess depreciation is smaller than the pre-ACRS cumulative excess depreciation for the first two years, for all years thereafter the ACRS cumulative excess depreciation is greater. In fact, at no time in the life of the asset, other than the first two years, is the cumulative excess tax depreciation under the old depreciation schedule greater or equal to that obtainable under the new ACRS depreciation schedule.

Likewise, the turnaround period for the accelerated timing differences, as measured by the year in which the annual accounting depreciation exceeds the annual tax depreciation causing the cumulative excess tax depreciation to decrease, is longer under the new ACRS depreciation schedule than for the pre-ACRS useful life tax depreciation schedule (six years versus five years). This longer turnaround period under the new ACRS depreciation schedules is likely to create greater deferred tax credit carryovers in the future.[15]

Moreover, the cumulative impetus of inflation will tend to further magnify these deferred tax credit carryovers. For example, assume the firm with the asset in Table1 replaced equipment at a constant rate each year, with the $100,000 asset representing this year's annual outlay for new equipment. Assuming a six percent average annual inflation rate,[16] next year's replacement of an asset with the same productive capacity as this year's purchase would require an outlay of $106,000. This $6,000 increase will create higher depreciation deductions in future years. Consequently, it appears that future carryover amounts will be magnified through inflation and the new ACRS depreciation schedules.

This method would provide the fairest possible presentation of periodic net income, assets and liabilities.

TABLE 1
COMPARISON OF TAX AND ACCOUNTING DEPRECIATION

Pre-ACRS - 10 year life

Year	Double-Declining Balance	Straight-Line	Annual excess (deficiency) of tax over book depreciation	Cumulative excess depreciation
1	$20,000	$ 9,000	$11,000	$11,000
2	16,000	9,000	7,000	18,000
3	12,800	9,000	3,800	21,800
4	10,240	9,000	1,240	23,040
5	8,190	9,000	(810)	22,230
6	6,550	9,000	(2,450)	19,780
7	5,240	9,000	(3,760)	16,020
8	4,200	9,000	(4,800)	11,220
9	3,360	9,000	(5,640)	5,580
10	3,420	9,000	(5,580)	—
	$90,000*	$90,000*		

ACRS - 5 year write-off

1	$14,250	$ 9,000	$ 5,250	$ 5,750
2	20,900	9,000	11,900	17,750
3	19,950	9,000	10,950	28,100
4	19,950	9,000	10,950	39,050
5	19,950	9,000	10,950	50,000
6	—	9,000	(9,000)	41,000
7	—	9,000	(9,000)	32,000
8	—	9,000	(9,000)	23,000
9	—	9,000	(9,000)	14,000
10	—	9,000	(9,000)	5,000
Total	$95,000**	$90,000*		

*$10,000 salvage value remaining
**$100,000 asset cost less $5,000 (½ of the 10% investment tax credit received), as required under the ACRS provisions.

The Matching Concept

The 1964 Committee of the American Accounting Association on the matching concept defined matching as the process of reporting expenses on the basis of a cause and effect relationship with reported revenues.[17] Similarly the Committee on Accounting Procedure of the AICPA on the subject of income taxes stated that:

> Income taxes are an expense that should be allocated, when necessary and practicable, to income and other accounts, as other expenses are allocated. What the income statement should reflect under this head, as under any other head, is the expense properly allocable to the income included in the income statement for the year. . .The difficulties encountered in allocation of tax are not greater than those met with in many other allocations of expenses.[18]

The authors take exception to the above statements. We believe that income taxes exist only when a business has taxable income for a given year and, further, that income taxes follow rather than precede revenue generating activities. That is, expenses are typically incurred to produce increases in revenues, but income taxes do not bring about revenue increases. No direct relationship exists between the amount and/or the timing of income tax payments and the benefits received. Taxes, rather, are a function of taxable income. In fact, entities incurring the least income often received the most benefits. Moreover, income taxes paid may be refunded in future periods. Such is not the case with other expenses; once incurred, they normally cannot be refunded or recovered.

Just as unrealistic as it is to expect pre-tax accounting income and taxable income to be the same, it is similarly unrealistic to expect income tax expense to be in direct relation to net income. The matching concept thus appears inapplicable to income taxes. Consequently, the FASB should cease its efforts to match elements fundamentally not so related, for by matching elements not relevant to each other, the association is one of misclassification and most likely will misrepresent the true situation.

The Going Concern Assumption

As generally applied, the going concern assumption assumes that the entity will continue in operation long enough to carry out its existing commitments. In lieu of evidence to the contrary, the entity should be viewed as remaining in operation indefinitely under normal circumstances. The going concern assumption is often used as an argument for comprehensive interperiod tax allocation. That is, taxes deferred to the future are recognized currently as liablities because the entity is assumed to remain in operation long enough for future operations to reduce and ultimately eliminate these deferred tax amounts. That logic is suspect, however. Does this assumption necessarily imply continued operation at a profit? If not, then taxes will not be paid but refunded. Even if it does, it is unrealistic to perceive a going concern without increasing or replacing its assets, which would create permanent deferred tax amounts.

Contingencies

FASB Statement of Financial Accounting Standards (SFAS) No. 5 defined a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain... or loss... to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability."[19] The statement also specified the accrual of a loss contingency if it is probable than an asset has been impaired or a liability has been incurred, that it must be probable that one or more future events will occur confirming the fact of the loss, and the amount of the loss can be reasonably estimated.[20]

Although concluding that disclosure of a loss is preferable to accrual when a reasonable estimate cannot be made, the Board further stated:

> ...even losses that are reasonably estimatable should not be accrued if it is not probable than an asset has been impaired or a liability has been incurred at the date of an enterprise's financial statements because those losss relate to a future period rather than the current or prior period.[21]

In addressing the issue of contingencies and probabilities in financial reports, Herman Bevis criticized *APB Opinion No. 11* for departing from the past philosophy in dealing with contingencies. Recognizing that taxable income for a given year may be lower or higher than pre-tax accounting income and that the income tax payment may also be greater or less than if the tax were levied on pre-tax accounting income, he gave the following account:

> Whether or not tax reductions now must be paid back later is a contingency to be evaluated in each company on the basis of the probabilities. It is most regrettable that the APB did not look at the problem in this light, rather than inventing the deferred credit - deferred charge idea in an attempt to legitimatize a form of income smoothing.... What it has done ... is to arbitrarily conclude that, for every business, 100 percent of the tax increases are cost reductions and ... assets. It is regrettable that they did not recall that it is important that there be neither 'material overstatement nor understatement' in periodic net income. It is regrettable that thought was not given to the admonition that a provision not properly chargeable to current revenues understates current income; that reserves not created on the basis of any reasonable estimates of cost and losses should not be deducted from income; that practical application of a principle rests upon the possibility of making a reasonable estimate of the amount of a claim; and that there are contingencies not sufficiently predictable to be recorded in the accounts.[22]

Statement of Financial Accounting Concepts (SFAC) No. 3 defines liabilities as "probable future sacrifices of economic benefits arising from present obligations... to transfer assets or provide services... in the future as a result of past transactions or events."[23] It can be argued that deferred income tax credits (liabilities) are not, in all cases, present obligations because no duty or responsibility to make future tax payments exists (as a result of past events). That is, deferred tax credits qualify as liabilities on a case-by-case basis only. For example, no future tax payments result from timing differences if future tax deductions exceed taxable revenues. By the common test of liabilities, no liability for future income taxes exists as of the date of the current balance sheet. There is no billing by a creditor; no claim exists by the United States Treasury; no evidence of the decline in an asset value is readily apparent; and no liability will ever exist unless there are profitable operations in the future.

This is not to say, however, that a liability cannot exist, be reasonably estimated, and recognized as of the balance sheet date. That estimate is a contingency to be evaluated by each company on the basis of the probabilities. Thus *SFAS No. 5* should be followed when recognizing future tax liabilities; that is, deferred taxes are contingencies and because the probabilities associated with the repayment of tax reductions vary, each company must be evaluated separately.

Selective Partial Tax Allocation

As previously stated, a selective partial tax allocation method is proposed. Only those timing differences which meet the following qualities would be recognized in the account balances:

1. Must be determined on an individual firm basis.
2. Only those groups of similar timing differences (not on an individual basis, for individual timing differences reverse, but in total, they often do not) that —
   a. are expected to reverse within 3-5 years.
   b. are expected to reverse when a positive taxable income is present.
   c. can be reasonably estimated and measured.

For those timing differences that do not meet the above criteria, footnote disclosure may be warranted if their reversal is reasonably possible. Otherwise, no disclosure of the timing difference is warranted.

The balance sheet would include only those groups of similar timing differences expected to reverse and provide (use) cash within the next 3 - 5 years.

While fully realizing that measurement problems are inherent, the estimations do not appear significantly more difficult than many now being recognized in the accounts. For example, estimated warranty expense and provisions for bad debts are now recognized even though the amounts are not completely verifiable in many instances. Additionally, accountants, since 1975, have been evaluating potential liabilities in light of *SFAS No. 5*. Furthermore, forecasts, being prepared by most business enterprises, would include the required information to help assess if these timing differences should be recognized. Thus, recognizing only those timing differences that will reverse and require (provide) the use of cash within the next 3-5 years would aid present and potential investors, creditors, and other users in assessing the amounts, timing, and uncertainty of prospective net cash inflows to the enterprise (an objective contained in *SFAC No. 1*, "Objectives of Financial Reporting by Business Enterprises"). Clearly, management is in a better position to assess whether timing differences will reverse in the near future than are investors, creditors, and other users. With comprehensive tax allocation, external users are forced to make that determination. And even if these computations are not totally objective, it is better to be imprecisely relevant than precisely irrelevant, as is the case with comprehensive tax allocation.

Evaluation of managerial performance would be enhanced by adoption of partial tax allocation. Comprehensive tax allocation obscures a significant element of managerial efficiency, namely the timing of tax payments. These timing

differences often result from conscious decisions of management. Thus, the consequences of such decisions should not be obscured but clearly show so that users can accurately appraise the effectiveness of management. If management succeeds in permanently reducing the income tax liability, then that fact should be reflected in the financial statements to fully recognize its efficiency.

The adoption of a selective partial tax allocation approach would also promote greater international harmonization of generally accepted accounting principles. The United Kingdom has changed its required accounting for income taxes to the partial allocation approach, while the International Accounting Standards Committee now permits, but does not require, a method similar to the partial allocation approach adopted in the United Kingdom.

In summary, because not all groups of similar timing differences reverse (thus, rejecting comprehensive tax allocation) but some similar timing differences do reverse (providing support against the flow-through method of accounting for income taxes), the adoption of a partial tax allocation method would provide the fairest possible presentation of periodic net income, with neither material overstat ement nor understatement. Likewise, the balance sheet would include only those groups of similar timing differences expected to reverse and require (provide) cash within the next 3-5 years, thus meeting the definition of liabilities (assets). Partial tax allocation would enhance comparability between enterprises, faithfully represent the underlying circumstances, and add relevance by enabling users to more accurately predict the amount, timing, and uncertainty of future tax flows. The FASB should reconsider the merits of partial tax allocation.

Even under comprehensive tax allocation, these deferred tax amounts should be discounted (consistent with APB Opinion No. 21), in which case the FASB is in essence adopting partial tax allocation. Discounting amounts that will not reverse in the immediate future (or never reverse) reduces deferred taxes to negligible amounts, thus in effect closely approximating partial tax allocation. The failure to discount deferred taxes created with comprehensive tax allocation makes the financial statements inaccurate, misleading and ignores completely the economic reality of the situation. Ω

NOTES

[1]*Accounting Principles Board Opinion No. 11*, "Accounting for Income Taxes," American Institute of Certified Public Accountants, (New York: AICPA, 1967).

[2]Permanent differences arise both from statutory provisions which specifically exempt certain revenues from taxation or disallow the deductibility of specified expenses, and from certain items which enter into the determination of taxable income but never become components of pre-tax accounting income.

[3]*FASB Discussion Memorandum*, "Accounting for Income Taxes," (Stamford, Conn.: FASB, August 29, 1983), par. 116.

[4]Price Waterhouse & Company, *Is Generally Accepted Accounting for Income Taxes Possibly Misleading Investors?* New York, 1967; see also, "Is GAAP for Income Taxes Possibly Misleading Investors?" *Financial Executive* (September 1967), pp. 70, 72, 74-75.

[5]Sidney Davidson, "Accelerated Depreciation and the Allocation of Income Taxes," *The Accounting Review* (April 1958), pp. 173-180.

[6]Although the new Accelerated Cost Recovery System sets both the rate and life for tax depreciation, Davidson's conclusions remain valid.

[7]Davidson, op. cit., p. 177.

[8]John Leslie Livingstone, "Accelerated Depreciation, Cyclical Asset Expenditures and Deferred Taxes," *Journal of Accounting Research* (Spring 1967), pp. 77-94; "Accelerated Depreciation and Deferred Taxes: An Empirical Study of Fluctuating Asset Expenditures," *Empirical Research in Accounting: Selected Studies, 1967* (Chicago, Illinois: University of Chicago), May 1967, pp. 93-133; and "Accelerated Depreciation, Tax Allocation, and Cyclical Asset Expenditures of Large Manufacturing Companies," *Journal of Accounting Research* (Autumn 1969), pp. 245-256.

[9]John W. Buckley, *Income Tax Allocation: An Inquiry Into Problems of Methodology and Estimation*, New York: Financial Executives Research Foundation, 1972.

[10]Sidney Davidson, Lisa Skelton, and Roman E. Weil, "A Controversy Over the Expected Behavior of Deferred Tax Credits," *The Journal of Accountancy* (April 1977), pp. 53-59.

[11]Livingstone, "Accelerated Depreciation, Tax Allocation, and Cyclical Asset Expenditures of Large Manufacturing Companies," p. 251.

[12]William C. Norby, "The Obsolescence of Deferred Tax Accounting," *Financial Analysts Journal* (January-February 1982), pp. 75-76.

[13]Joint Economic Committee, *The Federal Tax System:* Facts and Problems, 1964 (Washington, D.C.: U.S. Government Printing Office, 1964), p. 102.

[14]E. Carey Brown, "The New Depreciation Policy Under the Income Tax: An Economic Analysis," *National Tax Journal* (March 1955), p. 89.

[15]Joseph Weber, "Accounting for Income Taxes — The Debate is Reopened," *Accounting Research Convocation*, University of Alabama, 1982.

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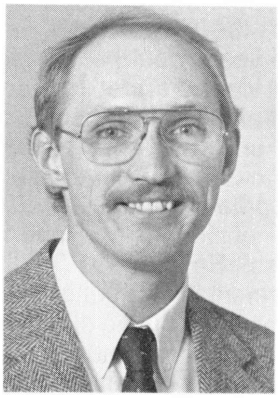

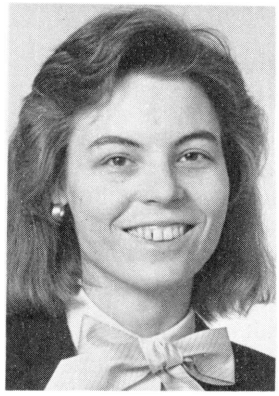

Jerry G. Kreuze, CPA, Ph.D., *is assistant professor of accounting at Western Michigan University. He served on the sub-committee of the AAA's Committee on Financial Accounting Standards to respond to the FASB Discussion Memorandum, "Accounting For Income Taxes." He recently participated in the eleventh Robert M. Trueblood Professor's Seminar and also is a member of the AICPA.*

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tell us that today's accounting classes are 50 percent women. From that, I conclude we're moving toward center court.

One of my assignments — perhaps the one that offers the greatest opportunity — is chairing the AICPA Future Issues Committee. Our charge is simple, clear and imposing in its instructions: We are asked to identify future problems and opportunities facing AICPA and the accounting profession.

Through a series of interviews with prominent futurists, leaders from various industries and professions — including our own — we have identified fourteen issues we believe will be of watershed importance. The list includes how firms can take advantage of opportunities to expand services and products. Other issues raise critical spects of competition, automation, legal liability and self regulation. Peering into the future is a heady business — especially for CPAs, usually more regarded for their skills as historians than as seers.

In looking at the prospects for women in our profession, we made assumptions: that the future of the profession and its adherents hinges ultimately on the quality of the work performed. Thus, it is important to know if we are recruiting the brightest potential candidates into the profession. Are we reaching out to everyone potentially able to perform in the profession?

We find a variety of reactions to our inclusion of this as one of the key issues for the profession. Some are apprehensive that women may not be as strenuously and single-mindedly career oriented as men. That is clearly a misperception and part of the problem. Others view this as an opportunity to bring new perspectives into the profession.

Flexible hours, flexible workdates, flexible locations — some say — would solve the problem of women working. As a committee, we have concluded that AICPA should form a committee of knowledgeable, dedicated professionals who can explore the issue, sweep aside untested cliches and come up with thoughtful recommendations that help, rather than deter, the women in business.

We have been discussing a practical plan for advancing the interests of women in the accounting profession. It is important that we acknowledge that our cause is advanced by a closer working relationship between the Institute and an organization like AWSCPA. Already, six women have been appointed to chair important committees of the Institute. With more than 200 committees in operation, AICPA can offer us room to expand. But the beachhead is firmly established. You will find, as I have, that the Institute's people are receptive to newcomers, eager to contribute to the worthwhile work of the committees. As our ranks expand, it is only fitting for us to assume an appropriately larger role in the work of the profession.Ω

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[16]This annual inflation rate appears to be quite realistic given the present United States Consumer Price Index (CPI) increases in recent years. Although the 1982 rate was less than 5 percent, the average rate of inflation, as measured by the CPI, for the period 1971 through 1980, has been 9.735 percent annually. For simplicity, it was assumed that the specific price level change was equal to the general price level change for the year in question.

[17]American Accounting Association, 1964 Concepts and Standards Research Study Committee — The Matching Concept, "The Matching Concept," *The Accounting Review* (April 1965), p. 369.

[18]Committee on Accounting Procedure, *Accounting Research Bulletin No. 43*, (New York: AICPA, 1953) p. 88.

[19]*FASB Statement of Financial Accounting Standards No. 5*, "Accounting for Contingencies," (Stamford, Conn.: FASB, March 1975), par. 1.

[20]Ibid., par. 8.

[21]Ibid, par. 59.

[22]Herman W. Bevis, "Contingencies and Probabilities in Financial Statements," *The Journal of Accountancy* (October 1968), pp. 41-42.

[23]*FASB Statement of Financial ccounting Concepts No. 3*, "Elements of Financial Statements of Business Enterprises,"(Stamford, Conn.: FASB, 1980), par. 28.