

**TRENDS AND FUTURE REQUIREMENTS
FOR
CORPORATE FINANCIAL REPORTING**

Address of

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This program for today and tomorrow is one of a growing number of conferences sponsored by schools of business assisted by accounting and business organizations interested in improving the internal as well as the external uses of accounting and other business data. The Securities and Exchange Commission has always taken an active interest in these efforts through participation by Commissioners and members of the staff. Such participation is deemed to be related to and in furtherance of the functions and activities of the Commission.^{1/}

What period of time is necessary to establish a trend? A recent publication of the Center for International Education and Research in Accounting at the University of Illinois provides a possible starting point in the first two paragraphs:

"Accounting is a common heritage of mankind, as are the Indo-Arabic numerals it uses. As an international language, accounting is understood throughout the world. The rules of debit and credit are the same in East and West; the accounts of businesses in Tokyo, Paris, and New York, their balance sheets and income statements, appear very familiar even to those who are not able to read the language of the text.

"Totally different is the state of accounting theory; despite a tradition of more than 600 years, to this moment a generally accepted explanation for the process of double-entry has not been found. For the interpretation of a relatively narrow set of related phenomena, innumerable, more or less similar or contradictory, and often antagonistic theories were developed. Not satisfied with both the popular rules-of-thumb and the few well-known explanations, many philosophically minded teachers of accounting devised their own theories--for the alleged benefit of their pupils or for the publication of an additional but seldom new and better version of an old theme.

^{1/} The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues on the staff of the Commission.

It is still 'difficult to find a statement of the whole question which does not involve figurative language and more or less inconsistency.'" 2/

The last sentence of this quotation is from the first paragraph of an article by W. A. Paton on the same subject published in The Journal of Accountancy for January 1917. Paton was not in doubt by the time he reached his last paragraph. He concluded:

"The left-hand side of any account is called the debit side; the right-hand is called the credit side. The simplest rule for debit and credit is based directly upon the fundamental equation: debit additions to property and subtractions from equities and credit additions to equities and subtractions from property. The terms debit and credit as used in modern accounts have no other important significance."

Determining what to debit and what to credit and how much has been, and still is, a persistent problem. However, discussion in accounting circles today--academic, business, government, and public practice--seems to be dominated by efforts to reconcile logical theoretical analysis based on economic and legal theories and conclusions drawn from "realistic" empirical evidence. 3/ Persuasive arguments are made on both sides but if a government agency finds it necessary to intervene and announce a solution for its purposes, such action is viewed with alarm even though 4/ the result may be accepted by a substantial majority as a good solution.

2/ Monograph 2, "Theory of Accounts in Double-Entry Bookkeeping," by Karl Käfer, 1966.

3/ See "Absolutism and Accounting Theory," by David Green, Jr., in Aspects of Contemporary Accounting, Accounting Series No. 4, University of Florida, p. 1.

4/ See "Sacred Cows in Accounting--A Reprise," by Herbert F. Taggart, Ibid., p. 13.

Fifty years ago next month The Journal of Accountancy reprinted from the Federal Reserve Bulletin of April 1917 a tentative proposal for a uniform system of accounting to be adopted by manufacturing and merchandising concerns. The preface to the proposal recognized that banks and bankers had a real interest in the subject because of their reliance upon the statements furnished by these concerns. It was recognized, too, that the manufacturers and merchants had a vital interest because of the reflection on their credit standing if the bankers incurred losses because of their reliance on financial statements which did not correctly reflect true conditions. And the conclusion was:

"Lastly, it is of immense importance to auditors and accountants, because they have a professional as well as a practical interest in having the character of their professional work thoroughly formulated and standardized. Losses incurred by bankers by reason of credits given to merchants or manufacturers, if such credits were given because the statements were either actually false or misleading in their nature, tend to discredit accountancy as a profession and to shake the confidence of bankers in the real value of any statements." 5/

Today the reliability of the financial statements and the quality of the work underlying their preparation and certification are under attack by investors as well as by bankers. Robert M. Trueblood, immediate past president of the American Institute of Certified Public Accountants, discussed the current situation on the Hayden, Stone Forum in New York on November 10, 1966. Referring to sharp criticism of the profession he said: "Now, if the public were to lose confidence in the auditing process, it follows that the value of financial statements would be impaired--with a resultant loss of confidence in business management.

5/ The Journal of Accountancy, June 1917, p. 401.

Our whole system of 'people's capitalism' is based on accumulating capital from a myriad of sources, and this process is predicated on confidence in corporate financial reports. If this confidence were undermined, the results would be serious for the entire economy."

The problems we face today are magnified over those of fifty years ago by the growing complexity of business organizations and the great increase in numbers of individual investors with little or no education in financial affairs and a limited understanding of financial statements. This of course does present a challenge to corporate managements to make reports as clear as possible. Pretty pictures are not enough.

The Securities and Exchange Commission has been in business for a generation--a busy period in our lives. Immediately prior to the passage of the Securities Exchange Act of 1934 which created the Commission, the Twentieth Century Fund conducted a survey of the security markets. The full text of the findings was published in 1935. Part IV, Informing the Investor, contains a chapter of thirty-six pages devoted to corporate accounting and reporting.

The study found that, while some able students of the subject considered the more carefully prepared reports of industrial companies to be more informative than reports for railroads, in a great many cases the industrial reports and reports of railroad and utility holding companies were inferior to those published by operating railroads and utility companies. The information contained in such reports was often so meagre as to be almost useless to the stockholder. Further, in numerous instances, instead of disclosing, the report succeeded in concealing the real conditions.^{6/}

^{6/} "The Security Markets," Twentieth Century Fund, Inc., New York City, 1935, p. 580.

Deficiencies noted in the reporting included failure to report sales or gross revenues (publication would create sales resistance or give advantage to competitors), to provide analyses of depreciation charges-- amount and method, to segregate operating from other income, to classify reserves, and to separate unusual and nonrecurring income. All of these matters have been recognized and covered by up-to-date pronouncements of the profession as well as in Regulation S-X, the Commission's accounting regulation which prescribes the form and content of financial statements. This regulation does not prescribe uniform accounting but recognizes that variations exist in practice. The Twentieth Century Fund discussion of the income statement concludes with a paragraph which might have been written today:

"It is often asserted that the only figures in which the general public is interested are the net earnings per share of common stock. Unfortunately, large sections of the daily press seem to act on the assumption that earnings, as reported, can always be taken at their face value. Even the specialized financial publications do not seem always fully to realize that there are numerous cases where stated earnings may not be the result of a bona fide effort to determine the true earnings of a corporation. Yet from the facts just outlined it is plain that such is certainly the case." 7/

Criticism of the balance sheet includes failure to distinguish between capital and earned surplus, to disclose methods of valuation of inventories, and to provide details of current assets (concealment of treasury stock therein). Although these matters still require attention, the position of the profession and of the SEC with respect to them is well known.

The report is critical of the statement by the president or chairman of the board and of the practices followed in the preparation of consolidated

7/ Ibid., p. 582.

statements. Unfortunately some questionable practices show up today in both of these areas. Putting your best foot forward, an understandable human trait, is still the rule in reports, and inclusion of profitable subsidiaries in consolidation and omission of the unprofitable is a device still used at times to make things look better than they are.

Since the Securities Exchange Act was passed before this study was published, the concluding chapter comments on it and the amendments to the Securities Act of 1933. One paragraph will afford an introduction to discussion of more current events:

"Two all-important benefits are expected to flow from the Act in requiring a full disclosure of corporate facts. The first result should be the protection of investors against sharp practice by favored 'insiders.' It is believed that the full light of publicity will cause many questionable practices to disappear, placing all security holders on a more even footing. As a fuller knowledge of the Commission's requirements become known they will become the generally acknowledged minimum of accounting practice. Officials will then ask with reference to their own corporate policy, 'How will this appear as the published practice of our company?' With reference to all listed corporations the necessity of full and accurate disclosure should suffice. But for over-the-counter stocks of many smaller corporations doubtless more drastic methods will be found necessary." 8/

This paragraph forecast things to come. Regulation of disclosure requirements has often been charged with setting minimum standards rather than encouraging adoption of the most desirable standards. The argument is--leave us alone and we will do better. The record is fairly clear that some leaders will do better but many not in this class need the prod of constantly improving professional standards supported by appropriate regulatory authority.

8/ Ibid., p. 707.

Accounting for pensions may be cited as one example. Twenty years ago the Commission in its report to Congress observed that it had "come to feel that serious consideration should be given to the proposition that even under voluntary plans in which there is no strict legal liability to continue pension payments a corporate management expecting to remain in business and enjoy good labor relations would not--if in fact it could--abandon a pension plan, and therefore a realistic approach is to recognize the liability. However, in the absence of a clear-cut legal liability the Commission has not as yet, as a matter of policy, insisted upon the showing of an actuarially determined liability for the accruing pensions. Instead, a clear footnote explanation is accepted."^{9/}

Further discussion covered the question of accounting for current and past service costs and the Commission concluded as to the latter that payments based upon past service of employees currently on the payroll are for a current benefit in the form of better employee relations, reduced labor turnover, and similar benefits currently and in the future and hence are proper charges to profit and loss. This position is supported today and was unanimously adopted in Accounting Research Bulletin No. 36 in November 1948. Eight years later Accounting Research Bulletin No. 47 created some difference of opinion over accounting for past services by permitting direct charges to earned surplus to make up for inadequate charges in the past under an existing plan. Six members of the committee objected to this solution. Opinion No. 8 of the Accounting Principles Board supports this minority and in addition outlaws practices related to

^{9/} Thirteenth Annual Report of the Securities and Exchange Commission, Fiscal Year Ended June 30, 1947, p. 128.

funding considered acceptable under the earlier bulletins. This bulletin did not endorse the full accrual method recommended by Hicks ^{10/} in his study but brought the accounting for pensions a long step closer. That continuing study is necessary is recognized in paragraph 17 of the opinion. Disclosure required by paragraph 46 of the opinion should bring the notes in reports to stockholders into close, or complete agreement, with the requirements of Rule 3-19(e) of Regulation S-X if the paragraph is understood to require disclosure of the amount necessary to fund unfunded past and prior service costs. Reporting the annual amount funded and the number of years to go can be misleading, particularly if there have been changes in the plan since inception. In a recent case the multiplication resulted in a figure fifty percent higher than the total previously disclosed.

An editorial in the October 1930 issue of The Journal of Accountancy states that probably the most noteworthy action of the American Institute of Accountants at its annual meeting the preceding month was the decision to appoint a committee for the purpose of cooperating with the New York Stock Exchange in the consideration of all problems which are of common interest to investors, exchanges and accountants. The editorial noted that there had been an amazing increase in investors in the last twenty years so that the investing public had spread to "include folk in all walks of life." Hopefully the committee cooperating with a committee of the exchange would "have a good and lasting effect." The successor to this committee of the Institute carries on today as the Committee on Relations with the SEC and Stock Exchanges.

^{10/} "Accounting for the Cost of Pension Plans," by Ernest L. Hicks, Accounting Research Study No. 8, AICPA, 1965.

It was an address ^{11/} delivered at the annual meeting by J. M. B. Hoxsey, Executive Assistant to the Committee on Stock List of the New York Stock Exchange, that led to the action taken. Hoxsey discussed prevailing inconsistencies in accounting for depreciation, omission of volume of sales or gross revenues, accounting for capital and surplus (including a long discussion of stock dividends paid and received), and over-conservatism in accounting even to the point of questioning whether writing down goodwill to \$1 should not be deplored when goodwill really exists. This paper may be one of the first to have recognized the increasing importance of the income statement and the diminishing importance of the balance sheet.

The importance of the income statement and the method by which income is reported have been highly controversial matters for at least a generation. Specific authority for the Commission to deal with income classification is found in Section 19(a) and Schedule A of the Securities Act of 1933 and corresponding sections of subsequent acts.

Accounting Principles Board Opinion No. 9, entitled "Reporting the Results of Operations," in Part I deals with one phase of this problem. The reporting of extraordinary items was one of the most widely debated post-World War II accounting problems, and it was the subject of Commission studies and conferences with representatives of the accounting profession and others. At one point the Commission's staff and American Institute representatives were very close to agreement on the proposed content of ARB No. 32, "Income and Earned Surplus," now Chapter 8, of Accounting Research Bulletin No. 43. The relative merits of the all-inclusive income

^{11/} "Accounting for Investors," The Journal of Accountancy, October 1930, p. 251.

statement advocated by the Commission's staff and the current operating performance concept, believed by its supporters to be more useful as an indication of future earning capacity of a company, are discussed in this chapter and the latter concept is endorsed. The debate unfortunately reached an impasse on the classification as between income and earned surplus of a few items, and we parted company. Having objected to various aspects of the bulletin in the course of its preparation, the Chief Accountant of the Commission wrote the Director of Research of the Institute that "the Commission has authorized the staff to take exception to financial statements which appear to be misleading, even though they reflect the application of Accounting Research Bulletin No. 32." This letter and the bulletin were published in the January 1948 issue of The Journal of Accountancy.

About this time work was begun on a major revision of Regulation S-X, including adoption of the principle of the all-inclusive income statement. At the conclusion of the rule-making process the all-inclusive income statement controversy was compromised by including the now well-known Item 17 (Special Items) in Rule 5-03 of Regulation S-X. Compliance with Opinion No. 9 no doubt will cause this item to fall into disuse, as the new form of income statement recommended in the opinion will meet the requirements of the regulation. The impact of the opinion should be a more determined effort to arrive at a more meaningful annual net income figure as its determination is affected by the inevitable estimates of changes in corporate life, future use of properties subject to depreciation and amortization, collectibility of accounts and obsolescence of inventories. Two recent prospectuses reported extraordinary items arising from one or more

of these factors in every year of the summary of earnings. These could be described as situations involving regularly recurring, nonrecurring items. The record of such companies cannot be judged properly without taking these items into account.

A recent example demonstrates the temptation management has faced under Chapter 8 of ARB No. 43 on Income and Earned Surplus. A company with a small operating loss had a substantial gain on the disposition of properties which was reported to stockholders as "Special Income" in the income statement as it was in the report on Form 10-K filed with the Commission. The next year the company suffered a severe operating loss and losses of twice as much in closed plant expenses and revaluation of fixed assets. In this year the extraordinary loss was charged directly to earned surplus in the report to stockholders with reference to a footnote which said in part:

"In connection with the company's filings with the Securities and Exchange Commission, the extraordinary charge to retained earnings as explained above will be shown as a special charge after the determination of net loss in the statement of operations."

On the highlights page in the later report the gain of the preceding year was reported opposite the caption "Special Income" following the line "Net (Loss)" but the current year extraordinary loss was disclosed in a footnote. Compliance with the format prescribed in Opinion No. 9 will eliminate this inconsistent practice.

The footnote reference here to the SEC constitutes compliance with revised proxy Rule 14a-3 under the 1934 Act. This warrants some discussion of the change in this rule which generally has been attributed to a case described in the "Report of Special Study of Securities Markets of the

Securities and Exchange Commission."^{12/} The company involved was listed on a stock exchange and filed its required annual report with the SEC containing consolidated financial statements which showed a loss of \$1,000,000 whereas its annual report to stockholders for the same year contained parent statements only which showed a net income of \$1,500,000. Losses of subsidiaries included in consolidation for income tax purposes were not reflected in the parent statements. This was not an isolated case--others turned up at about the same time. APBO No. 10 has amended ARB No. 51 to require the equity method of accounting in these circumstances.

The Commission's proxy rules which had required a company soliciting proxies to send stockholders a report containing financial statements which in the opinion of management adequately reflected the financial position and results of operations of the issuer were amended in two steps. The first amendment three years ago^{13/} requires the inclusion of consolidated financial statements of the issuer and its subsidiaries in reports to security holders if they are necessary to reflect adequately the financial position and results of operations of the issuer and its subsidiaries. Recognizing that it was not the general practice to include both parent company and consolidated statements in reports to stockholders, the rule permits omission of the former even though they may be required in filings with the Commission. The rule does not require strict adherence to the Commission's rules as to form and content, but if there are any material differences between the principles of consolidation or other principles

^{12/} Part 3, Chapter IX, p. 90.

^{13/} Securities Exchange Act of 1934 Release No. 7324, May 26, 1964.

and practices, or methods of applying accounting principles or practices, applicable to such statements and those reflected in the report to security holders such differences must be noted and the effect thereof reconciled or explained in the report to security holders. The rule also recognizes that much financial information required in statements filed with the Commission may be found elsewhere in the reports and can be considered in judging the adequacy of disclosure.

Problem areas anticipated under the rule were discussed at meetings of professional groups and with the AICPA Committee on Relations with the SEC and Stock Exchanges. Some requirements applicable to annual reports to shareholders that were discussed were that sales and cost of sales be reported--the latter to be separated from a total including other expenses; depreciation for the period be stated; extraordinary items (now required in the income statement by APBO No. 9) be properly recorded; accumulated depreciation be deducted from the assets; and, of course, a reconciliation of consolidation practices be provided.^{14/} Prompt compliance by a substantial number of companies was noted in 1965 reports and the inspection so far this year of a large number of 1966 reports has turned up very few that require a reminder of the rule.

The rule was amended again recently to require reports to security holders to include financial statements for two years on a consistent basis, except that the earlier year may be omitted if good cause is shown.

Another change in the rules under the 1934 Act, which implements an amendment to the Act in 1964, requires that companies not soliciting proxies

^{14/} See "Accounting and Auditing Problems," The Journal of Accountancy, January 1965, p. 69.

shall, nevertheless, furnish a statement to security holders before any annual or other meeting containing information and financial statements similar to that required under Rule 14a-3 in connection with a solicitation of proxies.^{15/}

This discussion so far has dealt largely with problems of disclosure and the parties who have contributed to improving the content of reports to security holders. On February 19, 1964, the last day of the hearings on proposed amendments to the Securities Acts before the Subcommittee on Commerce and Finance of the Committee on Interstate and Foreign Commerce, House of Representatives, Chairman Staggers asked William L. Cary, then chairman of the SEC, "Is it true that the Commission now accepts financial statements from various companies following alternative accounting practices with materially different results for similar transactions and the certifying statement that all of these practices are in accordance with generally accepted accounting principles?" The answer was "It is, sir." After a brief discussion the Commission was requested to furnish a statement setting forth areas of accounting where alternative practices could produce materially different results under generally accepted accounting principles. The memorandum in response to this request cited sections of the act granting authority to the Commission to deal with accounting matters and to adopt forms and regulations, and stated that the Commission was well aware of the controversial nature of many accounting issues and of the efforts of the profession, in which the staff has participated, to narrow the areas of differences. This introductory section of the memorandum

^{15/} Securities Exchange Act of 1934 Release No. 7774, December 30, 1965.

concluded with the assertion that "The Commission believes that its policy of working with and supporting the accounting profession in the development of accounting principles has directly influenced this progress and is the best means of assuring continuing improvement of accounting practices.^{16/}

Chairman Cohen reiterated this position in his address before the AICPA annual meeting last October in Boston.^{17/} The memorandum cited with brief discussion the following matters: 1. Valuation of inventories, 2. Depreciation and depletion, 3. Income tax allocation, 4. Pensions (APBO No. 8 has been discussed), 5. Research and development costs (now under active study by APB), 6. Goodwill (another APB project), 7. When is income realized? (this must come up in any overall reexamination of the purpose of financial statements), and 8. "All-inclusive" versus "current operating performance" profit and loss or income statement (APBO No. 9). Other areas cited requiring attention and getting it by the APB and others are intercorporate investments, long-term leases, principles of consolidation, business combinations, income measurement in finance and small loan companies, and intangible costs in the oil and gas industries. This list of course is not complete and never can be since new problems arise even before old ones are solved.

A brief comment on the term, generally accepted accounting principles, as used in the accountant's opinion may be in order. Accountants are charged with signing the standard short form certificate without having a definition for this all important term. Perhaps so, but the accountant

^{16/} See "Statements in Quotes," The Journal of Accountancy, June 1964, p. 56, e.g., for excerpts from the testimony and for the memorandum.

^{17/} The Journal of Accountancy, December 1966, p. 60.

must reach a decision based on his education and experience. New problems must be analyzed as they arise. In practice before the Commission the management, the independent accountant and the Commission or its staff must reach a solution. There is not time for a long period of research and study. This means that in cases unique to our combined experience a solution may be adopted which, with greater experience acquired later, may be considered faulty and a change in accounting will be adopted. Change after thorough study and extensive experience is the road to progress--change solely for the sake of change, possibly influenced by what appears to be an immediate advantage in reported earnings, is rightly the subject of criticism.

Any one not a regular reader of the Financial Executive, the journal of the Financial Executives Institute, will find the December 1966 special issue on "Corporate Reporting" a challenging collection of articles on the subject. The subtitles for the articles give a good indication of the flavor of the discussions:

By an executive - To understand any business fully, one must live with it daily, struggle with its problems, risks, and successes - can this be fully explained in any public financial presentation?

By an investment analyst - Shareholder reports should permit the investor to detect the ebb and flow of economic tides and to discern the growth of a company without being forced to elevate accounting problems.

By a partner in an international accounting firm - Continued confidence in financial reporting will suffer from unrealistic attacks on accountancy and from indifference to issues by financial officers.

By a corporation president - To retain the voluntary approach to disclosure, corporate management and public accountants must adopt a constructive and positive attitude toward the problems.

It is pertinent here to recall that in correspondence between a special committee of the American Institute headed by George O. May and the New York Stock Exchange (corporate controllers were participants) it was suggested that each corporation with securities listed on the Exchange should prepare a statement of the accounting principles followed by the corporation and file this with the Exchange for inspection by an interested person. The SEC came on the scene before this idea could be implemented. The SEC instructions as to form and content of financial statements, now found in Regulation S-X, called for substantial disclosure by footnote or otherwise of the accounting practices of the registrant. The regulation also includes a provision that all of this disclosure can be presented in the form of a single statement. This is rarely done. A few years ago Philips Lamp of the Netherlands filed a registration statement with the Commission. Subsequently its report to stockholders did include such a statement, including a description of the pioneering accounting practices followed by that company. The effects of these were reconciled to accounting practices generally accepted in the United States.

Container Corporation of America in its report to stockholders for 1966 includes a one-page statement of accounting and financial principles explaining the company's treatment of the following items: inventories, property and depreciation, deferred federal taxes, investment credit, overseas subsidiaries, currency devaluation reserve, U. S. federal income taxes on overseas earnings, goodwill, and research and development.

This is a practice which could be adopted by others to the great benefit of financial analysts. The discussion would not be understood by most lay readers.

The disclosure matter attracting most attention today seems to be the Commission's interest in more detailed financial reporting by conglomerate companies. Chairman Cohen discussed the need for this at the annual meeting of the Financial Analysts Federation a year ago and again at the annual meeting of the AICPA. At the latter meeting he was able to report on the plans of the Financial Executives Institute to underwrite and direct a study of the problem with the cooperation of others. One of the problems is the definition of a conglomerate. The Chairman has referred to them as those widely diversified companies whose operations include a number of distinct lines of businesses or classes of products or services. The Commission's registration forms, in calling for a description of the business, require a company engaged in the production or distribution of different kinds of products or the rendering of different kinds of services to indicate, insofar as practicable, the relative importance of each product or service or class of similar products or services which contributed 15 percent or more to the gross volume of its business. In addition Regulation S-X requires segregation of sales and services unless one element is not more than 10 percent of the total. An example of the application of this latter rule is in income statements of companies which sell and lease a product. If lease rentals, usually the lesser part of the total, are more than 10 percent of the total revenue the amount must be set forth separately.

The Financial Executives Institute has urged its members to improve disclosure--specifically in a breakdown of sales by major lines of products. Current reports to stockholders disclose an encouraging response to the request and some interesting variations in reporting contributions to profits.

A few companies have reported net earnings by major groups of products-- one of these for the first time allocates interest and corporate overhead to two major divisions of the business. This is done in a note covered by the accountant's opinion. The basis of allocation is on the capital employed method. A well-known conglomerate reports sales and pretax income by four product groups.

In one case the certified consolidated statement of income shows net sales; cost of goods sold; share of net earnings of 50% owned domestic affiliates; selling, advertising and other divisional expenses resulting in a Divisional operating profit before corporate and general expenses, interest, other income and provision for income taxes. The highlights page contains a table showing for three years the net sales and operating profit for five divisions. Another acknowledged conglomerate includes in its report a page showing net sales and net income in total and for three major segments making up the total. One company with a variety of operations reports a distribution of sales by major markets but the net income improvement over the prior year is reported as an analysis of the difference allocated to four sources--three up and one down. A somewhat similar company reports sales by five major product lines all at new record levels. As to net income, however, a paragraph states the company's position:

"Because of the large volume of inter-divisional transactions with attendant problems of cost and profit allocations, we do not feel meaningful results can be obtained by attempting to allocate net income by product or division. Internal accounting reports used for measurement of divisional performance are misleading to those unfamiliar with our organization structure and internal accounting policies."

Prophecy is risky business but it seems reasonable to predict that corporate managements will find ways to improve reports to stockholders. One of Hoxsey's closing paragraphs will serve now as well as it did in 1930:

"Assuming that all that has been said here is correct, as far as it goes, it is not to be presumed that it constitutes the last word to be said. Men change, methods change, social, financial, industrial and commercial practices change. These changes have affected accounting in the past, they should affect it in the present and they will continue to affect it in the future. We can foresee that future only dimly and so our planning for it must be subject to correction as the need for correction occurs." 18/

18/ Op. cit., p. 277.