

Report to Council of the
Special Committee on Research Program

Introduction

Our committee was appointed in December 1957 to consider a new approach to the means whereby accounting research should be undertaken, accounting principles should be promulgated, and adherence to them should be secured. This action followed an address by Alvin R. Jennings, now the President of the Institute, at the annual meeting in New Orleans in October 1957, in which he cited some of the difficulties involved in the profession's present approach to this problem, and suggested a possible alternative.

One of our members, Marquis G. Eaton, was taken from us by death soon after the committee was organized. We wish to express our profound sorrow at his passing, and to acknowledge our great loss because of his absence from our deliberations.

We have reviewed the history and the work of the present committee on accounting procedure, and that of the Research Department (including what is now the Technical Services Department) of the Institute insofar as it concerns the committee on accounting procedure. We have studied several specific proposals, including that of Mr. Jennings, for the reorganization of the accounting research and related activities of the Institute. We have considered a number of comments and questions submitted to us by members of the Institute and others interested in our project. We have inquired into the organization of several other groups having research programs. We have exchanged views at some length among ourselves through correspondence. Finally, we have held three meetings—March 24-25, May 12-13, and August 1, 1958; these were attended by all of us, except that, because of illness, Carman G. Blough was not present on August 1, and by Perry Mason of the American Institute staff.

It should be understood that we have confined our attention largely to the field of financial accounting. The proposals in this report are not intended to cover the fields of cost accounting and managerial accounting, for example, or auditing.

Basic considerations

Before presenting our proposals for the organization of the accounting research and related activities of the Institute in the field of financial accounting, it probably would be well to set forth some of the basic considerations we have had in mind in formulating them—what we think it is the American Institute of Certified Public Accountants should seek to accomplish in this direction.

The general purpose of the Institute in the field of financial accounting should be to advance the written expression of what constitutes generally accepted accounting principles, for the guidance of its members and of others. This means something more than a survey of existing practice. It means continuing effort to determine appropriate practice and to narrow the areas of difference and inconsistency in practice. In accomplishing this, reliance should be placed on

persuasion rather than on compulsion. The Institute, however, can, and it should, take definite steps to lead in the thinking on unsettled and controversial issues.

The broad problem of financial accounting should be visualized as requiring attention at four levels: first, postulates; second, principles; third, rules or other guides for the application of principles in specific situations; and fourth, research.

Postulates are few in number and are the basic assumptions on which principles rest. They necessarily are derived from the economic and political environment and from the modes of thought and customs of all segments of the business community. The profession, however, should make clear its understanding and interpretation of what they are, to provide a meaningful foundation for the formulation of principles and the development of rules or other guides for the application of principles in specific situations. Also, the Institute should encourage co-operative study with other representative groups to determine that its understanding and interpretation of the postulates are valid and to provide a forum which will command sufficient respect to bring about a change in the postulates when any of them become outmoded.

A fairly broad set of co-ordinated accounting principles should be formulated on the basis of the postulates. The statement of this probably should be similar in scope to the statements on accounting and reporting standards issued by the American Accounting Association. The principles, together with the postulates, should serve as a framework of reference for the solution of detailed problems.

Rules or other guides for the application of accounting principles in specific situations, then, should be developed in relation to the postulates and principles previously expressed. Statements of these probably should be comparable as to subject matter with the present accounting research bulletins. They should have reasonable flexibility.

Adequate accounting research is necessary in all of the foregoing. Pronouncements on accounting matters should be based on thoroughgoing, independent study of the matters in question, during which consideration is given to all points of view. For this, an adequate staff is necessary, to carry out detailed investigations, evaluate data, formulate conclusions, and draft reports setting forth results. Research reports or studies should be carefully reasoned and fully documented. They should have wide exposure to both the profession and the public. This is an effective way to stimulate and crystallize thinking on accounting matters.

Initial attention, perhaps primary attention, should be given to the accounting problems in connection with the published financial statements of industrial and commercial corporations, including those subject to regulatory authority. But, in the long run, attention should not be confined to them. Equally important accounting problems exist in connection with the financial statements of small businesses, partnerships, individual proprietorships, associations, institutions, governmental bodies, and the like.

Thought should be given at the beginning and from time to time thereafter to the forward planning of the accounting research program and related activities, to the end that accounting procedures are evolved on a coherent and consistent basis and pronouncements are made in an orderly and timely manner.

The accounting research program should be one of the most important activities of the Institute. The work merits the attention of the Institute's ablest members.

The closest co-operation of others concerned with the results of this work should be enlisted. That of industry is especially important. That of governmental agencies, stock exchanges, and other professions is necessary also. Probably this co-operation can be effected best in connection with specific projects. It may be received not only from organized groups

such as trade associations, regulatory commissions, and professional bodies, but also from individual corporations, firms, and persons. Of course, other accounting organizations—the various national and state associations and societies—should be kept in close touch with the work and should be given every opportunity to present their views on matters under consideration.

Summary of proposals

The following summarizes the highlights of our proposals. Various details relating to the organization and operation of the accounting research program and related activities as we envision them are discussed in a subsequent section of this report.

Organization for the program

The organization for carrying out the proposed accounting research program and related activities of the Institute would consist of an Accounting Principles Board and an accounting research staff.

The Board would consist of eighteen members of the Institute, selected primarily because of their ability. The members would be elected by the Council for three-year terms, upon nomination by the executive committee, which would designate one of the nominees to be the chairman. It would be designated a senior technical committee, and the sole group in the Institute having authority to make pronouncements on accounting principles.

Four members of the Board—three designated by the executive committee in making nominations, and the chairman of the Board, *ex officio* – would constitute a fiscal committee which would attend to the fiscal administration of the accounting research program, having responsibility for budgets, personnel, and similar matters. The executive director would have the privilege of the floor at its meetings.

The accounting research staff would comprise, on a permanent basis, a director of accounting research, three to five senior members, two to three junior members, and necessary secretarial assistance. It would be supplemented by temporary personnel, usually for specific projects, obtained from educational institutions, public accounting firms, or other sources.

The director of accounting research would be the administrative head of the accounting research staff, and would have active charge and direction of the carrying out of the accounting research program. He would be appointed by the executive committee upon the recommendation of the fiscal committee of the board, and would be responsible to the fiscal committee in fiscal matters. He would have the privilege of the floor at meetings of the Board and those of the fiscal committee. The position of director of accounting research is not intended to include the functions of the present position of director of research.

Operation of the program

The principal products of the proposed accounting research program and related activities would be a series of accounting research studies and a series of statements on generally accepted accounting principles.

Accounting research studies ordinarily would be published upon the completion of research projects by the accounting research staff, and would present a detailed, documented report on the work, give pro and con arguments on controversial points, offer conclusions or recommendations, and, where appropriate, illustrate and demonstrate the application of principles. They would be published under the name of the director of accounting research and those who had been associated with him in a project. They would indicate logical solutions to accounting problems in relation to basic postulates and broad principles. They would be informative, but tentative and not highly authoritative. They would furnish a vehicle for the exposure of matters for consideration and experimentation. Therefore, they should have wide distribution.

Immediate projects of the accounting research staff should be a study of the basic postulates underlying accounting principles generally, and a study of the broad principles of accounting. The results of these, as adopted by the Board, should serve as a foundation for the entire body of future pronouncements on accounting matters, to which each new release should be related. The further planning of the accounting research program would be undertaken by the director of accounting research and the chairman of the Board.

A small project advisory committee of Institute members, and, occasionally, others, under the chairmanship of a member of the Board, would work with the accounting research staff on each research project. There would be public announcement concerning work on research projects, and interested persons would be invited to submit memoranda for consideration.

Statements on generally accepted accounting principles would be issued by the Board and would be expected to be regarded as an authoritative written expression of what constitutes generally accepted accounting principles. They ordinarily would be based on accounting research studies previously prepared by the accounting research staff. As in the case of the accounting research studies, the statements on generally accepted accounting principles would be framed in relation to basic postulates and broad principles.

Upon the publication of an accounting research study, it would be considered by the Board, and accepted (as the basis of a statement on generally accepted accounting principles), rejected, or laid over for future attention, depending upon the circumstances, unless, of course, it consisted of a factual survey or something similar which did not require Board action. The Board, however, could itself initiate action on a particular matter, without waiting for the publication of an accounting research study; in this event it would instruct the director of accounting research to do what was necessary to prepare material for its consideration.

Drafting and similar work would be done for the Board by the accounting research staff. Drafts of proposed statements on generally accepted accounting principles would be widely exposed for comment before publication, to give interested persons opportunity to present additional memoranda for consideration by the Board.

Statements on generally accepted accounting principles would not be presented to the Council or to the membership of the Institute for approval, except in rare cases.

Reports to the Council

The Council should receive regular semiannual reports from the Board, and in addition such special reports as it might require. The regular reports of the Board should comprise three parts—one relating to the technical work of the Board, one relating to the activities of the fiscal committee of the Board (over the signature of the chairman of the fiscal committee), and one relating to the activities of the accounting research staff (over the signature of the director of accounting research).

In his part of the report, the director of accounting research should give the reasons for abandoning any research project or for not publishing the results of any completed research project.

Financing the research program

The annual cost of the program we propose would be considerable, of course. Eventually, it might be in the neighborhood of a quarter of a million dollars, although several years might elapse before this figure was reached, even if the funds were readily available, because time would be required to recruit and develop a staff of competent research personnel.

We believe the probable cost should not deter the Institute from proceeding with the program, although, manifestly, careful consideration should be given to means of financing the program before it is inaugurated. We suggest that the executive committee is the appropriate body to do this; we have not considered it within the scope of our assignment. We do believe, however, that the entire cost of the program should be borne by the profession.

Transition to the new program

The Board would succeed the present committees on accounting procedure and on terminology. The unfinished business of those committees at the time the accounting research program was inaugurated would be disposed of as agreed upon by the present committees, the Board, and the director of accounting research. This should not present too much of a problem, inasmuch as some time would be required to get the new program under way after its authorization by the Council, which could be used by the committees to wind up some projects and put others in shape for consideration by the Board or by the accounting research staff.

In the course of time, the Board would be expected to review all of the already existing accounting research bulletins and terminology bulletins of the present committees on accounting procedure and on terminology. In order to clarify the status of those bulletins meanwhile, the Board probably should make an announcement upon its organization, to the effect that they were to continue in force with the same degree of authority as before, but that the Board would reserve the right, as did the present committee on accounting procedure, to review and revise any of them from time to time.

The Technical Services Department and the present office of director of research presumably would continue to function as before, except that the Technical Services Department would not serve the Board as it has served the present committees on accounting procedure and terminology.

Review of the program

This or any other similar program which is adopted should be subject to review at more or less regular intervals, say every five years, so as to improve its organization and method of operation, and to reflect changing conditions in the Institute and in the profession. At some future time, other technical fields of activity of the Institute might be worked into the proposed new organization. There are now about twenty different committees dealing with such matters, served by the Technical Services Department.

Details of organization

The following supplements and amplifies the preceding summary of details of organization for and operation of the accounting research program and related activities.

Organization of the Board

The Board would consist of eighteen members. It has been suggested that a smaller group might operate more effectively, but we believe that a reasonably large group would be desirable, and we feel that a Board of eighteen working along the lines indicated in this report would be manageable.

All of the members of the Board would be selected from the membership of the Institute.

The ability of the individuals would be the primary consideration in selecting the members of the Board. Effort would be made to seek out the best qualified persons. Competence and interest are more important than representation of particular groups or geographical areas.

The members of the Board would be nominated by the executive committee and elected by the Council of the Institute. This is the procedure followed with respect to certain other agencies of the Institute, for example, the trial board. Its application here would recognize the importance of the Board and would provide an effective method of securing qualified personnel.

The term of service would be three years. However, initially, six members would be elected for three years, six for two years, and six for one year; thereafter, six would be elected each year. The executive committee would have discretion as to the nomination of any member to succeed himself. This procedure is intended to provide continuity in the work of the Board, which is important. In presenting nominations to the Council, the executive committee would designate one of the nominees to be chairman of the Board for a three-year term.

The executive committee would also designate which nominees would be members of the fiscal committee of the Board and would select one of them to be its chairman. Initially, one member of the fiscal committee would be designated from among the six members of the Board to be elected for three years, one from among those to be elected for two years, and one from among those to be elected for one year; thereafter, one would be designated from among the six to be elected each year. The normal term of service both for the chairman and the other members of the fiscal committee, would be three years.

In the case of a vacancy in the Board, a new member would be nominated by the executive committee and elected by the Council for the unexpired term of the retiring member.

The Board would adopt its own rules of procedure. These should provide, among other things, as the rules of procedure of the present committee on accounting procedure provide, that pronouncements on accounting matters have the approval of at least two-thirds of the members of the Board, and that such pronouncements be issued timely. The director of accounting research would have the privilege of the floor at meetings of the Board.

The Board would report to the Council. Its regular report would comprise three parts—one relating to the technical work of the Board, one relating to the activities of the fiscal committee of the Board (over the signature of the chairman of the fiscal committee), and one relating to the activities of the accounting research staff (over the signature of the director of accounting research).

The Board would be designated a senior technical committee, as the committee on accounting procedure has been, and the sole group in the Institute having authority to make pronouncements on accounting principles.

The Board would rely on the accounting research staff for drafting work and the like.

The chairman of the Board would participate with the director of accounting research in the planning of the accounting research program. Members of the Board would serve on project advisory committees for research projects.

The fiscal committee of the Board would attend to the fiscal administration of the accounting research program. The magnitude of the program, considered in relation to other activities of the Institute, which are constantly expanding, is such that responsibility for its administrative problems preferably should be lodged elsewhere than with the executive committee of the Institute. The plan outlined in this report is comparable to that adopted for the continuing education program recently inaugurated.

The fiscal committee would consist of four members: the chairman of the Board, ex officio, and three other members of the Board selected as explained above, one of whom would act as the chairman. The term of service would be three years.

The fiscal committee would adopt its own rules of procedure. The executive director and the director of accounting research would have the privilege of the floor at meetings of the fiscal committee.

The fiscal committee would report to the Council through the Board, its report (over the signature of its chairman) being one part of the regular report of the Board to the Council, as explained above.

The responsibilities of the fiscal committee would comprehend the approval of budgets for the accounting research program, for consideration by the Council; follow-up on budgets after their adoption by the Council, to see that they are adhered to; selection of the director of accounting research, and recommendation to the executive committee of the Institute concerning his appointment; determination of personnel policy with respect to the accounting research staff; and general jurisdiction over the expenditure of monies for the accounting research program.

Organization of the research staff

Good staff work is fundamental in any soundly organized research program. We propose the creation of an effective staff under competent direction.

There would be assigned to the accounting research staff on a permanent basis, the director of accounting research, three to five senior members, two or three junior members, and perhaps two secretaries.

The director of accounting research should be a person of substantial attainments and high reputation in accounting. He should have a good educational background, preferably including a graduate degree. He should be a certified public accountant. He should have had considerable experience and have demonstrated his ability as a writer and an administrator. His salary should be commensurate with his qualifications—probably at least \$25,000 a year.

The senior staff members should be capable of carrying on research projects with a minimum of supervision. They should be highly qualified individuals. Creative thinking, demonstrated research and writing ability, some accounting experience, and preferably a certified public accountant certificate perhaps are the basic requirements. A salary scale of from \$15,000 to \$20,000 probably would be necessary to attract the kind of talent needed.

The junior staff members should be able to assist the senior staff members on research projects, perhaps assume major responsibility themselves for some projects, assist in drafting accounting research studies and statements on generally accepted accounting principles, and prepare minutes of meetings of the Board and related committees. They should be young men and women with outstanding academic records and demonstrated writing ability. Since work with the Institute presumably would not be counted in qualifying them for the certified public accountant examination, individuals of this type ordinarily would not be available until after they had fulfilled the experience requirements for the certificate. A salary scale of from \$6,000 to \$12,000 probably would be appropriate at this level.

The permanent staff would be supplemented as occasion required and opportunity arose, by personnel engaged on a temporary basis, perhaps usually for specific research projects. This might well be done especially during the time it would take to build up an adequate permanent staff. Thereafter, it would serve to give the accounting research program some flexibility, and would help to meet the need for specialized technical assistance on some projects. Also, it could be a means towards the important end of keeping the staff in reasonably close touch with practical business affairs.

Temporary staff personnel could be drawn from universities and colleges, from public accounting firms, or from other sources. Teachers could be used for part-time work, or for full-time work if on leave from their faculties. Staff members of public accounting firms could be used to great advantage on some assignments; we earnestly hope the partners of a number of the larger firms would be willing to make themselves and members of their staffs available occasionally, for work with the Institute. The same applies, but to a lesser extent, in the case of experienced employees of commercial, industrial, financial, and other organizations. Temporary staff members might be employed at either the senior or junior level, and their salaries would vary accordingly.

It has been suggested that perhaps some research projects could be assigned to doctoral candidates at universities and colleges as the basis for dissertations. We doubt that this would be practicable. The work would be expected to require more background and experience than most graduate students have, and would involve more supervision and co-operation from other members of the research organization than would be appropriate for independent graduate research.

The director of accounting research would be the administrative head of the accounting research staff. He would be appointed by the executive committee upon the recommendation of

the fiscal committee of the Board. He would be responsible to the fiscal committee in fiscal matters such as the employment of staff members, both permanent and temporary. He would participate with the chairman of the Board in the planning of the accounting research program. He would select and appoint the other research staff personnel. He would have active charge and direction of the carrying out of the program, including the assignment of research projects and the supervision of work. He would have authority to approve accounting research studies for publication, but would be expected to consult with and to rely heavily upon the views of project advisory committees as to the suitability of such studies for publication. He would report to the Council on the work of the accounting research staff, his report (over his signature) being one part of the regular report of the Board to the Council, as explained above.

The director of accounting research would have the privilege of the floor at meetings of the Board and those of its fiscal committee and would provide effective liaison between those bodies and the accounting research staff. He would undertake studies for the Board, and would provide the Board with assistance in drafting and similar work on request.

The position of director of accounting research is not intended to include the functions of the present position of director of research. The director of accounting research would devote himself exclusively to matters of financial accounting, and his activities would not comprehend, for example, the fields of management services and auditing. While he would be expected to maintain contact with certain government agencies and others outside the Institute, and to make some public appearances, his activities in this connection should be in furtherance of the accounting research program. He would not be expected to conduct a department or edit a column for THE JOURNAL OF ACCOUNTANCY.

We have assumed in this report that the accounting research staff would be in effect a separate division of the Institute organization. It could, of course, be incorporated as a subsidiary of the Institute or as an Institute foundation.

Accounting research studies

The principal end product of the work of the accounting research staff would be a series of accounting research studies. These ordinarily would be published upon the completion of research projects by the accounting research staff. They would be in the form of pamphlets or monographs presenting detailed, documented reports on the work, giving pro and con arguments on controversial points, offering conclusions or recommendations, and where appropriate, illustrating and demonstrating the application of principles. They would be published under the name of the director and those who had been associated with him in a project, and should bear a clear statement to the effect that they had not been approved or disapproved by the Board or by the Institute, and did not necessarily reflect their views.

The accounting research studies would provide the profession and the public with a reasonably complete discussion and documentation of accounting problems, and would indicate logical solutions to the problems in relation to basic postulates and broad principles. They would be informative, but tentative and not highly authoritative. They would furnish a vehicle for the exposure of matters for consideration and experimentation prior to the issuance by the Board of a statement on generally accepted accounting principles. They would be expected to contribute substantially toward the development of sound accounting practices, especially as to unsettled and controversial matters, and toward the recognition and acceptance of later pronouncements by

the Board. In order to accomplish these ends, their distribution should be as wide as possible among accountants, both public and private, students and teachers, and others who would be interested. Publication of a summary and the conclusions of each accounting research study in THE JOURNAL OF ACCOUNTANCY would assist in calling attention to the studies.

An immediate project of the accounting research staff should be a study of the basic postulates underlying accounting principles generally, and the preparation of a brief statement thereof. There should be also a study of the broad principles of accounting, and the preparation of a reasonably condensed statement thereof, similar in scope to the statements of the American Accounting Association. The results of these, as adopted by the Board, should serve as the foundation for the entire body of future pronouncements by the Institute on accounting matters, to which each new release should be related.

The further planning of the accounting research program, that is, the selection of the research projects and decision as to the order in which to take them up, would be undertaken by the director of accounting research and the chairman of the Board. If they could not agree, they would refer the matter to the Board for decision. In planning the work, consideration would be given to requests or instructions from the Board for the study of matters of particular interest to it, and to suggestions from any other source for the investigation of particular problems. There should be borne in mind the desirability of developing pronouncements on accounting matters in a coherent, consistent series rather than as unconnected articles on isolated matters. Effort should be made to avoid restricting research projects to matters upon which the Board would be expected to take action immediately by incorporating the results of an accounting research study in a statement on generally accepted accounting principles; encouragement should be given to the exploration of unsettled and controversial matters as to which the Board might not be expected to make a pronouncement for some time. Due regard, of course, should be had for the necessity of keeping the program within budget allowances, as to both funds and talent.

Upon the reaching of a decision to undertake a research project, the director of accounting research would make the necessary staff assignments. With the approval of the chairman of the Board, he also would appoint a project advisory committee for the project and designate the chairman thereof.

A project advisory committee would consist of a small group, usually five to seven, of individuals especially qualified in the area under study, to consult from time to time with the director of accounting research and the staff members assigned to the project. The project advisory committee ordinarily would be selected partly from the Board, with a member of the Board acting as the chairman, and partly from the general membership of the Institute. Occasionally, however, it might be desirable to invite individuals from industry and other sources outside the Institute to be guest members.

The project advisory committee would be expected to provide the accounting research staff with a means of keeping in close touch with business practice. Its members would be available during the progress of the work, to suggest sources of information, to review conclusions reached by the staff members, and, ultimately, to review the draft of the report and to advise as to its suitability for publication as an accounting research study.

At an appropriate time, public announcement would be made to the effect that the accounting research staff was studying, or was about to begin studying, a particular matter, and that persons who desired to have their views considered should submit memoranda to the director of accounting research. In some cases the announcement might be more effective if it were withheld until after some preliminary work had been done, as this would permit the listing

of specific questions or phases of the topic on which comments were especially desired. Such announcement would include notices in THE JOURNAL OF ACCOUNTANCY and in *THE CPA*, and letters to organizations and individuals who customarily co-operate with the Institute in its accounting research program and related activities and to any others thought to be interested in the project. The material received in response to this invitation would be given careful consideration. Unless restricted by the contributor, it would be considered as available to all interested persons.

The director of accounting research, the staff members assigned to the research project, and the project advisory committee would work together as a team. The director of accounting research would exercise administrative supervision at all times, and would have authority to publish the results as an accounting research study. As to the latter, however, he should give due consideration to the views of the project advisory committee, and ordinarily would be expected not to proceed contrary to the strong opposition of the group.

If the results were not published by the Institute, a staff member would be permitted to publish them under his own name in some circumstances, as where a university or college professor had done the work as a temporary member of the accounting research staff. It seems unlikely that publication of a rejected study would be desirable where the work had been done by a permanent member of the accounting research staff.

Each accounting research study published by the Institute would carry the names of the director of accounting research, the staff members who made the study, and the project advisory committee. Any of these persons, except possibly some of the staff members, who disagreed with the conclusions expressed in the study would be expected to have an explanation of his position included in the published document.

Statements on accounting principles

It is expected that these statements, to be issued by the Board, would be regarded as an authoritative written expression of what constitutes generally accepted accounting principles.

The statements on generally accepted accounting principles ordinarily would be based on accounting research studies previously prepared by the accounting research staff and, in some cases, others, with emphasis on the conclusions expressed in them. The finished product of the accounting research staff thus would become the principal raw material of the Board. In view of the prior publication of the accounting research studies, in most cases, statements on generally accepted accounting principles would be expected to receive wide recognition and acceptance upon their issuance.

As in the case of the accounting research studies, the statements on generally accepted accounting principles would be framed in relation to basic postulates and broad principles.

Upon the publication of an accounting research study, it would be considered by the Board, and accepted (as the basis of a statement on generally accepted accounting principles), rejected, or laid over for future attention, unless, of course, it dealt with a subject (for example, a factual survey of prevailing practice with respect to the accounting treatment of a given item) which would not be expected to be acted upon by the Board.

It would be accepted if the Board concurred in the conclusions expressed in it and believed the time opportune for the issuance of a statement on generally accepted accounting principles relating to the subject of the accounting research study.

It would be rejected if the Board disagreed with its conclusions or thought the subject inappropriate for treatment in a statement on generally accepted accounting principles. If the Board disagreed sharply with the accounting research study, it should make its dissent public, together with its reasons therefor, so that the profession and others concerned would be warned that the previously published document did not have authoritative support. Possibly the most effective way for the Board to do this would be to proceed promptly with the preparation of a statement on generally accepted accounting principles which would approve a contrary position. Alternatively, the Board could arrange to have an announcement of its views published in *THE JOURNAL OF ACCOUNTANCY* and in *THE CPA*. We hope that instances of this kind would be rare.

The accounting research study would be laid over for future attention if the Board believed that a waiting period would be desirable, in which to let a given matter settle down. For example, if an accounting research study dealt with a new problem or with a problem as to which there was considerable difference of opinion (and we hope that a number of them would deal with such problems), it might be in order to allow time for public reaction to its reasoning and experimentation with its recommendations before releasing the statement on generally accepted accounting principles. An extended waiting period might be needed in some cases to demonstrate the acceptability or nonacceptability of an accounting research study. During this period, members of the Institute would have an excellent opportunity, on the basis of the documented material contained in the published accounting research study, to lead thinking in the direction of a sound solution to the problem involved.

Although the statements on generally accepted accounting principles usually would be based on previously published accounting research studies, this would not necessarily be the case. The Board could itself initiate action with respect to a particular matter. In this event it would instruct the director of accounting research to undertake any necessary research work and prepare the draft of a pronouncement for its consideration without waiting for publication of the accounting research study.

Drafting and similar work in connection with statements on generally accepted accounting principles would be done by the accounting research staff. The Board should avoid detail of this kind, and should devote its efforts to the substance of the material presented for its consideration.

Drafts of proposed statements on generally accepted accounting principles would be exposed for comment before publication, under a plan similar to that followed by the present committee on accounting procedures with respect to its accounting research bulletins. This would permit the submission of additional memoranda in support of or in opposition to the position proposed to be taken by the Board. Every effort should be made to improve the effectiveness of this co-operative procedure.

Routine questions concerning statements on generally accepted accounting principles would continue to be handled as they now are. Substantive questions would be referred to the Board, which would issue a series of interpretive rulings.

The proposal of Mr. Jennings, which led to the appointment of our committee, suggested that pronouncements of the research organization should be presented to the Council for approval or rejection, and that upon receiving the approval of two-thirds of the members of the Council voting upon any particular pronouncement, they should be considered binding upon the members of the Institute. We have concluded that only rarely should a pronouncement be given the degree of finality represented by adoption of the principle by the Council or possibly by the

membership of the Institute. The Board would be expected to review its past pronouncements from time to time, and in a few instances might decide that a particular statement was of such great significance and had received such general support and acceptance, that it should be given formal recognition and become mandatory upon the membership of the Institute. In such cases the Board would include recommendations for such action in its report to the Council. We feel that the best method of enforcing most of the Board's pronouncements would be to secure their acceptance as high authority by professional accountants in advising clients and in preparing reports on financial statements.

Respectfully submitted,

ANDREW BARR

CARMAN G. BLOUGH

DUDLEY E. BROWNE

ARTHUR M. CANNON

PAUL GRADY

R.K. MAUTZ

LEONARD SPACEK

WILLIAM W. WERNTZ

WELDON POWELL, *Chairman*

September 1958