

relation to existing standards, if any, in order to help explain a material fluctuation in the gross profit margin. This could lead to the discovery of unrecorded purchases and sales, inventory valuation errors and other related errors, or frauds or embezzlements. In manufacturing companies the cost of materials and labor, per unit produced, may be compared with estimated or standard costs. These analyses are relatively simple when the products produced are similar. More sophisticated techniques may be called for when there is a considerable product mix.

Some significant expense items also lend themselves to independent review. For example, advertising expense may be compared with statistical data maintained by the company's advertising manager or agency.

There is no limit to what an accountant's experience and sophistication will suggest as to ways and means of appraising the reasonableness of a period's results.

—LOCKE GRAYSON, CPA

#### ABSTRACTS FROM REPORT OF SPECIAL COMMITTEE ON APB OPINIONS

A special committee of the American Institute of Certified Public Accountants, created to study the operation and status of the opinions of the Accounting Principles Board, recently concluded its study and submitted an historic report.

Because of the great import of certain of the recommendations of the Committee, they are here reproduced for the benefit of those who may not have had access to, or read the report. The provisions omitted deal essentially with administrative aspects.

*Recommendation No. 1.* At the earliest possible time, the Board should:

(a) Set forth its views as to the purposes and limitations of published

financial statements and of the independent auditor's attest function.

(b) Enumerate and describe the basic concepts to which accounting principles should be oriented.

(c) State the accounting principles to which practices and procedures should conform.

(d) Define such phrases in the auditor's report as "present fairly" and "generally accepted accounting principles."

(e) Consider, with the committee on auditing procedure, the possibility of improving the terminology of the auditor's report, and in particular the words "generally accepted" in the expression "generally accepted accounting principles."

(f) Define the words of art employed by the profession, such as "substantial authoritative support," "concepts," "principles," "practices," "procedures," "assets," "liabilities," "income," and "materiality."

*Recommendation No. 2.* The Board should move toward the reduction of alternative practices in accounting by adopting policies under which it will:

(a) Recognize the objective that variations in treatment of accounting items generally should be confined to those justified by substantial differences in factual circumstances.

(b) Set forth in its Opinions the criteria for application of such acceptable variations.

(c) In an Opinion dealing with a situation which the Board believes justifies alternatives even though there is no significant difference in factual circumstances, set forth the treatment to be preferred, and require disclosure of the treatment followed.

*Recommendation No. 4.* In its operation, the Board should:

(a) Establish a long-range program to deal with the whole accounting and

reporting spectrum, and in furtherance of the program assign priorities and target dates.

(b) In the assignment of priorities, give major attention to the fundamentals described under Recommendation #1, at the same time recognizing the necessity of dealing from time to time with matters which require current attention.

(c) To accomplish these objectives, designate subcommittees for long-range planning and for consideration of fundamental matters distinct from those dealing with current issues.

**Recommendation No. 5.** In the development and evolution of its Opinions, the Board should:

(a) Set forth in its Opinions a comprehensive background of the subject, the problem areas likely to need attention, the conclusions and the reasoning

supporting them, and illustrative applications.

(b) Except where otherwise specifically indicated, make its Opinions applicable to financial statements for fiscal periods starting after the dates of the Opinions.

(c) Adopt a formal procedure to provide review, at regular intervals, of its issued Opinions, from the standpoint of acceptance, continued applicability, or changed conditions.

**Recommendation No. 7.** A reasonable period of time having then elapsed for education and adaptation of the profession to Council's action in October 1964, regarding disclosure of departures from Opinions of the Board, Council in 1968 should approve, and propose to the membership of the Institute, an amendment to the Code of Professional Ethics to cover infractions of these disclosure requirements.

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