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AN EVALUATION AND EMPIRICAL STUDY OF THE DISCLOSURE OF

ACCOUNTING POLICIES IN PUBLISHED

FINANCIAL STATEMENTS

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ABSTRACT

In April, 1972, the Accounting Principles Board of the American Institute of Certified Public Accountants in its Opinion Number 22 stated that, whenever published financial statements are issued, a description of all significant accounting policies should be included as an integral part of the financial statements. Opinion 22 is effective for fiscal periods beginning after December 31, 1971. APB was established to narrow the areas of differences and inconsistencies in practice. The purpose of this study was to determine the impact of APB 22 on disclosure practice and the usefulness of such disclosures in making investment decisions and in evaluating management performance and efficiency.

The financial statements of 120 randomly selected corporations for the years 1971 and 1972 were obtained and analyzed as to either the compliance or the noncompliance with APB 22 regarding six factors, (1) basis of consolidation, (2) depreciation method, (3) amortization of intangibles, (4) inventory pricing, (5) accounting for research and development costs, and (6) translation of foreign currencies. The overall rate of compliance for the six factors selected was 74.9 and 97.1 for the years 1971 and 1972. APB 22 had a significant impact on the disclosure of accounting policies and the method of such policy disclosures in the published financial statements.

A questionnaire was mailed to the 200 Chartered Financial Analysts who were randomly selected to ascertain their feelings regarding the usefulness of the disclosure of accounting policies in making investment decisions. Respondents indicated that the disclosure of accounting policies is useful in making investment decisions and in evaluating management performance and efficiency. The disclosure of accounting policies in unaudited, interim financial statements is also favored. The respondents indicated that the accounting policies should be disclosed in a flexible format preceding the financial statements. Furthermore, a vast majority of the respondents indicated that they made adjustments to the net income when they were confronted with alternate accounting methods.

AN EVALUATION AND EMPIRICAL STUDY OF THE DISCLOSURE OF ACCOUNTING POLICIES IN PUBLISHED FINANCIAL STATEMENTS

CHAPTER I

INTRODUCTION

Background of the Problem

Marquis G. Eaton, former President of the American Institute of Certified Public Accountants (AICPA), stated:

> One thing that holds the economy together under all these pressures, and in the midst of this swift evolutionary passage through time, is our system of financial reporting. Financial reporting is simply the expression in terms of a common denominator of the whole complex network of elements which make up a business--land, buildings and machinery, raw materials, people at work, interrelated legal obligations--and most important, the results which they produce. Without adequate information about the results of business operations no one could make intelligent decisions, and our economy will fall apart.[1]

One of the concerns of the members of the accounting profession is that there are no generally accepted accounting principles and well-defined standards of disclosure.[2]

At the 1930 convention of the American Institute of Accountants, J. M. B. Hoxey, Executive Assistant to the Committee on Stock List of the New York Stock Exchange, pleaded for the publication of adequate, understandable information in financial statements presented to stockholders.

He felt that such information should avoid misleading the stockholders in any way and should aid them in determining the true value of their investments.[3] He urged full disclosure of relevant financial information and uniformity in the use of accounting principles.

The stock market crash of 1929 had such a devastating effect upon the investing public that some action was needed to protect the investors from deceptive stock promotors. As a result, the Securities and Exchange Commission (SEC) was created by Congress as an independent regulatory agency of the United States government to administer the Securities Act of 1933, the Securities Exchange Act of 1934, and several other acts.[4] The 1933 disclosure statute required that financial and other information be disclosed by means of a registration statement and a prospectus.[5]

The significance of disclosures in published financial statements is indicated by the following passage:

> Disclosure is the cornerstone of federal regulation of securities. It is the greatest safeguard that governs the conduct of corporate management in many of their activities. It is the best bulwark against reckless corporate publicity and irresponsible recommendation and sales of securities.[6]

The SEC has been one of the most significant influences in bringing about more and better disclosure in financial reporting. Specific financial information must be disclosed in SEC registration. In addition, the financial statements in a registration have to follow a prescribed form.[7] In 1972, the SEC proposed an amendment to Rule 3-08 of Regulation S-X to require the disclosure of significant accounting policies in a summary statement included in the financial statements.[8] This proposal was later revised and reissued for public comment in October, 1973.[9] In spite of this exposure, no action has been taken by the SEC as of the date of this study.

The AICPA, through its Accounting Principles Board (APB) issued Opinion 22, in April, 1972 that required the disclosure of significant accounting policies in published financial statements.

In 1972, in response to substantial concern over the information presented in corporate annual reports, the accounting profession again resorted to committees and accordingly the Financial Accounting Standards Board (FASB) was established. "The function of the Standards Board would be to establish standards of financial accounting and reporting."[10]

In an attempt to meet the need for more disclosure, in December, 1973, the FASB, in its Statement of Financial Accounting Standards No. 1, Disclosure of Foreign Currency Translation Information, required that the following information be disclosed in published financial statements:

> A statement of translation policies including identification of: (1) the balance sheet accounts that are translated at the current rate and those translated at the historical rate, (2) the rates used to translate income statement accounts (e.g., historical

rates for specified accounts and a weighted average rate for all other accounts), (3) the time of recognition of gain or loss on forward exchange contracts, and (4) the method of accounting for exchange adjustments (and if any portion of the exchange adjustment is deferred, the method of disposition of the deferred amount in future years).

The disclosures required by this Statement shall be made in financial statements reporting results of operations for fiscal periods ending after November 30, 1973 and in financial statements reporting financial position dated after November 30, 1973.[11]

Statement of the Problem

In acknowledging the inadequate disclosure practices of accounting policies in financial statements, the APB stated:

> In recent years, a number of business enterprises have adopted the practice of including in their annual reports to shareholders a separate summary of the significant accounting policies followed in preparing the financial statements. This disclosure has been favorably received by users of financial statements and endorsed by organizations representing corporate business.
>
> Practice by those entities that present summaries of accounting policies have varied considerably. Some present the summary of accounting policies as an integral part of the financial statements; others present it as supplementary information. In addition, both the nature and the degree of disclosure vary, and related guidelines are lacking.
>
> Disclosure of accounting policies by those entities that do not present separate summaries has varied also. Some have included, in footnotes relating to particular items in the financial statements, descriptions of all significant accounting policies. Most entities, however, have disclosed no such information as to certain significant accounting policies.[12]

To remedy the inadequate disclosure of accounting policies, the APB, in April, 1972, in its _Opinion Number 22_, _Disclosure of Accounting Policies_, further stated:

> The Board concludes that information about the accounting policies by a reporting entry is essential for financial statement users. When financial statements are issued purporting to present fairly financial position and results of operation in accordance with generally accepted accounting principles, a description of all significant accounting policies of the reporting entity should be included as an integral part of the financial statements.[13]

Opinion 22 is effective for fiscal periods beginning after December 31, 1971.

A search of accounting literature revealed no extensive study and evaluation of adherence or nonadherence to APB 22 and the determination of the usefulness of the accounting policies in making investment decisions.

With this background, the problem of this study was to determine the impact of APB Opinion 22 on the practice of disclosing accounting policies, by first examining the corporate financial statements for the years 1971 and 1972, and then by ascertaining the opinions of Chartered Financial Analysts regarding the usefulness of the disclosure of accounting policies.

Objectives of Research

The first objective of this investigation was to evaluate the disclosure of accounting policy practices before and after the issuance of APB 22. Information was obtained from some independent auditors and management concerning the justification for apparent deviations from the disclosure requirements of Opinion 22.

The second objective of this investigation was to determine the usefulness to financial analysts of the disclosure of accounting policies and the procedures used by them in comparing financial statements when confronted with alternate accounting methods.

Significance of the Study

The results of the study present some insight into the profession's acceptance of APB 22. The results of the study also provide some information as to the usefulness of the disclosure of accounting policies in published financial statements to the users of the statements. The accounting profession has assumed that adequate disclosure of accounting policies in published financial statements is essential for analysts to counsel investors in their investment decisions.

The value of the firm depends on the stream of future earnings. Any estimate of future earnings, in qualitative and quantitative terms, depends upon the availability of corporate information.[14] The best way of enabling the investors to make investment decisions is to provide them with adequate, accurate, and relevant financial information.

Disclosure of significant accounting policies may enable users to evaluate the efficiency of management and the reliability of management policies.

Scope and Method of Research

The scope of the study was limited to those facts obtained by reviewing available literature; by evaluating financial statements for the years ending December 31, 1971, and December 31, 1972, as well as in some cases, for the fiscal year ending as late as April 1, 1973; by obtaining information from the management of corporations and independent auditors as to their justification for apparent deviations from the requirements of APB 22; by interviewing some Chartered Financial Analysts in Norman and Oklahoma City, Oklahoma; and by mailing a questionnaire to a sample of Chartered Financial Analysts throughout the United States. In the analysis of financial statements and questionnaire responses, statistical techniques were used that included hypothesis testing and determining confidence intervals.

Organization of Study

Chapter I has covered the background of the problem of the disclosure of accounting policies in published financial statements, statement of the problem, objectives of research, scope, methods of research, and the organization of the study.

Chapter II covers the methods of research used for the study. Analysis of the evaluation of compliance with APB 22 is presented in Chapter III. Chapter IV presents the analysis of Chartered Financial Analysts' responses regarding the usefulness of the disclosure of significant accounting policies in published financial statements and the procedures used by the analysts in comparing financial statements when confronted with alternate accounting methods. Summary, conclusions and recommendations are presented in Chapter V of the study.

Footnotes

[1]Marquis G. Eaton, "Financial Reporting in a Changing Society," The Journal of Accountancy (August, 1957), p. 25; see also Surendra Singh Singhvi, "Corporate Disclosure through Annual Reports in the United States of America and India" (unpublished Ph.D. dissertation, Columbia University, 1967), p. 30.

[2]John L. Carey, "The Origins of Modern Financial Reporting," The Journal of Accountancy (September, 1969), p. 35.

[3]Eldon S. Hendriksen, Accounting Theory (Homewood, Illinois: Richard D. Irwin, Inc., 1970), p. 58.

[4]*Ibid*., p. 77.

[5]Louis H. Rappaport, SEC Accounting Practice and Procedure (New York: The Ronald Press Company, 1972), p. 1.3.

[6]Gyan Chandra. "Disclosure: A Study of the Consensus among Public Accountants and Security Analysts" (unpublished Ph.D. dissertation, Ohio State University, 1971), p. 10.

[7]James Don Edwards, History of Public Accounting in the United States, Bureau of Business and Economic Research (East Lansing, Michigan: Michigan State University, 1960), p. 155. See also Thomas Glenvall Estes, Jr., "An Investigation of Compliance with the Desirability of Depreciation Disclosure Requirements in Accounting Principles Board Opinion No. 12" (unpublished Ph.D. dissertation, University of Arkansas, 1971), p. 17.

[8]"SEC Asks Disclosure of Management Policies," The Journal of Accountancy (New York: American Institute of Certified Public Accountants, February, 1973), pp. 10, 12.

[9]Haskins & Sells, The Week in Review 73-41 (Houston, Texas: October 12, 1973), p. 10.

[10]Robert L. Hagerman, Thomas F. Keller, and Russell J. Petersen, "Accounting Research and Accounting Principles," The Journal of Accountancy (March, 1973), p. 52.

[11]Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 1: Disclosure of Foreign Currency Translation Information (Stamford, Connecticut, 1973), pp. 5, 6.

[12]*Accounting Principles Board Opinion No. 22: Disclosure of Accounting Policies* (New York: American Institute of Certified Public Accountants, 1972), p. 434.

[13]*Ibid.*, 435.

[14]Singhvi, *op. cit.*, p. 30.

CHAPTER II

METHODS OF RESEARCH

Elements of the Problem

Chapter I indicated the problems of the disclosure of significant accounting policies in published financial statements. The complexities and the diversity of business activities called for a new outlook with regard to the disclosure of significant accounting policies.

The primary objectives of this research included the gathering of empirical evidence in order to evaluate the influence of APB 22 on current disclosure of accounting policies in published financial statements and to obtain justification from management and auditors in cases of deviation from the requirements of APB 22. The secondary objective of the research was to determine whether the disclosures required by APB 22 are of benefit to the users of published financial statements in making investment decisions and in evaluating the efficiency of management.

The purpose of this chapter is to present the methodology used in conducting the research. Areas covered are Selecting and Securing the Sample of Published Financial Statements, Criteria for Evaluation of Published Financial

Statements Disclosure, Correspondence with Management and Auditors, Evaluation of Managements' and Auditors' Responses, Selecting and Securing the Sample of Chartered Financial Analysts, Design of Questionnaire for CFA's, and Evaluation of Questionnaire (CFA's) Responses.

Selecting and Securing the Sample of Published Financial Statements

In order to determine the sample size of published financial statements, the following formula was used.[1]

$$n = \frac{P(1-P)}{\left(\frac{Se}{t}\right)^2 + \frac{P(1-P)}{N}}$$

where: n = Sample size

P = Hypothesized proportion of noncompliance

Se = Desired sample precision

t = Confidence level factor

N = Population size

In order to have a desired statistical test, probability sampling was used. The confidence level was specified at 95 percent; the precision level, at 5 percent; and the confidence level factor, at 1.96. These specifications are standard ones and were arbitrarily determined. For a population estimated at 1000 and for these desired precision, confidence level and confidence level factor, the formula provided a required sample size of 69. A 50 percent response rate was specified because prior knowledge of the population was not known.

Calculations based on the formula yielded the following sample size of 69 as presented below:

$$n = \frac{.05(1-.05)}{(\frac{.05}{1.96})^2 + \frac{.05(1-.05)}{1000}} = 68.8 = 69 \text{ sample size}$$

To compensate for the possibility of nonresponses to the requests for copies of their published financial statements, a sample size of 140 was determined. A total of 140 corporations was selected at random from the 1,000 largest United States industrial corporations listed in the Fortune's directories of 1973.[2] The population selected for this research was the Fortune's 1000 industries that were dominant in industrial sectors and that accounted for about 71 percent of total industrial sales in the United States during 1972.[3]

A list of the 140 corporate names and addresses was compiled. A request was mailed to the management of each company for copies of their firm's published financial statements for the years ending December 31, 1971, and December 31, 1972, as well as in some cases, up to the fiscal year ending April 1, 1973 (a copy of the letter is included as Appendix A, Exhibit 1). A total of 120 of the 140 corporations responded, yielding a response rate of 85.7 percent. The published financial statements for 1971 and 1972 were analyzed. The results were tabulated and evaluated regarding the disclosure of significant accounting policies in Chapter III of this study.

Selection of Factors

From the recommendations of APB 22, the following factors were selected for use in evaluating the published financial statements.

1. Basis of consolidation,
2. Depreciation methods,
3. Amortization of intangibles,
4. Inventory pricing,
5. Accounting for research and development costs, and
6. Translation of foreign currencies.

These six factors are discussed in detail in Chapter III of this study.

Establishment of Criteria for Evaluation of Published Financial Statements

Criteria are established in Chapter III of this study for the six factors for evaluating published financial statements for compliance with the recommendations of APB 22. To receive an initial rating of compliance, the published financial statements had to disclose the stated criteria. If the published financial statements failed to comply with the stated criteria, the statements were given an initial rating of tentative noncompliance.

The methods of disclosing accounting policies in published financial statements were grouped into the following two classifications for purposes of this study:

1. Summary Statement
2. Footnotes

Each published financial statement for 1971 and 1972 was examined as to the disclosure of accounting policies concerning the six factors selected for this study. A comparison of disclosure policies for these two years gives some insight into the influence of APB 22 on disclosure practices. After the disclosure of accounting policies had been examined, the statements were analyzed as to the method of disclosing the accounting policies.

Correspondence with Management and Auditors

After an initial evaluation of the published financial statements for the year 1972, instances of apparent noncompliance with the requirements of APB 22 were identified. A letter and a questionnaire were sent to the management and the auditors of those corporations for their justification of the apparent noncompliance. (A copy of the letter and the questionnaire appear as Appendix A, Exhibit 2.) The letters with the questionnaire were mailed on December 17, 1973. A thirty-day period was allowed for the management and auditors to respond. Follow-up letters with questionnaires were mailed to nonrespondents on January 17, 1974. Another thirty-day period was allowed for responses to this follow-up request, however, responses received after February 17, 1974 are not considered for financial statement analysis.

Evaluation of Management and Auditors' Responses

After the responses had been received from management and the auditor concerning their explanation for the apparent noncompliance with the recommendations of APB 22, responses were classified into justifiable and nonjustifiable deviations.

Justifiable Deviations

To be considered justifiable, the deviation had to meet one of the following criteria:

1. That the item in the question was immaterial in amount and, therefore, did not warrant disclosure.
2. That the item in the question was not subject to the recommendation and, therefore, did not justify disclosure.

Nonjustifiable Deviations

To be considered nonjustifiable, the deviation had to meet one of the following criteria:

1. That the item in the question was properly treated in the published financial statement but not disclosed in the notes or a summary statement of accounting policies.
2. That the item in the question was not disclosed because of the disagreement by either the management or the auditor with the APB 22 recommendation.

The justifiable deviations were classified as satisfactory compliance. Nonresponses and nonjustifiable deviations were classified as unsatisfactory compliance.

Selecting and Securing the Sample of Chartered Financial Analysts

To help determine the usefulness of the disclosure of accounting policies in published financial statements in making rational investment decisions and to evaluate management's efficiency, Chartered Financial Analysts were selected to assist in this aspect of the study.

The population for this study consisted of the Chartered Financial Analysts listed in the 1973 Membership Directory of the Financial Analysts Federation. A random sample of 200 CFAs was selected from the 1973 Membership Directory of the Financial Analysts Federation.[4] An estimated response rate of 30 percent was considered necessary to assure an adequate sample to hold the Central Limit Theorem. Thus, the sample of 200 CFAs was somewhat arbitrarily estimated. This assumption was based on the findings of a recent research study using a mailed questionnaire approach.

> Thomas Glenvall Estes, Jr., was successful in getting 32.7 percent (98/300) return from the members of the Financial Analysts Federation (Estes, Autumn, 1968, p. 202). Stallman got only 12 percent (121/1068) usable replies from a similar sample (Stallman, 1969, pp. 35-36), and Pearl got 34.3 percent (120/350) replies back from CFAs (Pearl, 1969, p. 127.[5]

For this study, a response rate of about 30 percent was expected.

Design of Questionnaire for CFAs

Because of the geographic spread of the 200 CFAs selected for this study, the questionnaire method was selected for obtaining the data from CFAs.

The questionnaire sent to the 200 CFAs contained the following items:

1. General statements regarding disclosure of accounting policies,
2. Disclosure of specific accounting policies with reference to investment decisions and evaluation of management's efficiency,
3. Format of disclosure of accounting policies, and
4. Analysis of financial statements using alternate accounting methods.

Requiring 10 to 15 minutes for the CFAs to answer, the questionnaire was kept to a reasonable length to ensure a higher rate of response. To insure the quality, the questionnaire was pilot-tested by ten Chartered Financial Analysts in Norman and Oklahoma City, Oklahoma. These analysts were personally interviewed and asked to comment on the questionnaire. The questionnaire was then revised on the basis of these interviews. An addressed, stamped envelope was enclosed with the questionnaire to ensure maximum return. The questionnaire with the cover letter was mailed to the selected CFAs on October 31, 1973. (Copies of the letter and the questionnaire are included as

Appendix A, Exhibit 3.) If the questionnaire had not been returned within thirty days of the initial letter, a follow-up letter with questionnaire was sent on November 30, 1973. (A copy of the follow-up letter is included as Appendix A, Exhibit 4.)

Evaluation of Questionnaire Responses

The questionnaire responses were analyzed. The results are tabulated and evaluated in Chapter IV of this study.

The Hypotheses

For the purpose of this study, the following hypotheses were formulated:

H_1: That there is substantial compliance with the recommendations of APB 22 regarding the disclosure of accounting policies in published financial statements.

H_2: That the disclosure of accounting policies in published financial statements is helpful to the users of financial statements in making rational investment decisions and in evaluating management performance and efficiency.

A hypothesis test was performed on H_1 and the confidence interval was calculated for each of the six factors selected. H_2 was tested and the confidence interval was calculated to determine the usefulness of the disclosure of accounting policies in published financial statements. Statistical techniques for hypothesis testing and calculation of confidence interval are incorporated in Chapters III and IV of this study.

The results of the questionnaire responses are tabulated and presented in Chapter IV. The Summary and Conclusions of this study based on final evaluation are discussed in Chapter V.

Chapter II Footnotes

[1]Herbert Arkin, Handbook of Sampling for Auditing and Accounting, Volume 1--Methods (New York: McGraw-Hill Book Company, Inc., 1963), p. 96.

[2]Peter Vanderwicken, ed., The Fortune Directory of the 500 Largest Industrial Corporations, and Lawrence A. Mayer, ed., The Fortune Directory of the Second 500 Largest Industrial Corporations (New York: May and June 1973).

[3]*Ibid.*, pp. 155, 221.

[4]The Financial Analysts Federation, Directory of Membership, 1973, Twenty-fifth Edition (New York, 1973).

[5]Gyan Chandra, Disclosure: A Study of Consensus among Public Accountants and Security Analysts (unpublished dissertation, Ohio State University, 1971), p. 78.

CHAPTER III

AN ANALYSIS AND EVALUATION OF COMPLIANCE WITH ACCOUNTING PRINCIPLES BOARD OPINION NUMBER 22: "DISCLOSURE OF ACCOUNTING POLICIES"

Introduction

Adequate disclosure of information for corporations is necessary in the capital market economy because a great segment of the nation's resources are under corporate control and also because of the increased number of stockholders in publicly-held corporations.[1] The impact of the 1,000 largest industrial corporations on the U.S. economy is shown in the following passage:

> These relatively few companies, however, comprise the heart of the American free enterprise system. These companies at the end of 1972 accounted for about 71 percent of sales, three-quarters of the profits and employment of all U.S. industrial corporations.[2]

In 1970, an estimated 30 million Americans owned corporate stock, a 150 percent increase since 1959 (12 million shareholders).[3] Adequate disclosure of information about a company's financial affairs is necessary to enable investors to make investment decisions which will safeguard their interests against securities fraud and to make the management responsible for managing the nation's resources.[4] Confidence among the security investors needs to be created in order to raise large sums of capital. Public confidence is fortified by full and fair disclosure, but can be destroyed by a deliberate suppression of the corporate information necessary for investment decisions.[5] Manuel F. Cohen, former Chairman of the Securities and Exchange Commission once stated that:

> It is a truism, but not less significant, that the integrity and completeness of the required financial statements are the keystone around which is built the kind of investor confidence which supports our capital markets.[6]

Financial statements are the major instruments of corporate financial accountability, an important source of information for the investing public, and are the major information link between owners and management.[7] Disclosure of all significant accounting policies followed by a corporation is necessary for the investors to better understand the firm's financial statements. It is important to recall that in correspondence between AICPA and the New York Stock Exchange, the suggestion was made:

> . . . that each corporation with securities listed on the Exchange prepare a statement of accounting principles followed by the corporations and file 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 the form and content of financial statements, now found in Regulation S-X, call for substantial disclosure, by footnotes or otherwise, of the accounting practices of the registrant.[8]

During a 40-year period, the AICPA (formerly AIA), and the SEC attempted to bring some uniformity in accounting practice. In April, 1972, the Accounting Principles Board of the AICPA in its Opinion Number 22 stated that a reporting entity should include a description of all its significant accounting policies as an integral part of financial statements.[9] The purpose of this chapter is to determine the impact of APB Opinion 22 on the practice of disclosing accounting policies in published financial statements. As stated in Chapter II, in order to achieve this objective, the published financial statements of 120 companies (a list of companies used for this study is presented in Appendix C) for the years 1971 and 1972 were obtained and analyzed. The results of the analysis are presented in this chapter.

Selection of Factors

The following factors were selected from the recommendations of APB Opinion 22 to evaluate published financial statements: (1) basis of consolidation, (2) depreciation method, (3) basis of amortization of intangibles, (4) inventory pricing method, (5) accounting method for research and development costs, and (6) basis of translation of foreign currencies.

APB Opinion 22 requires the disclosure of accounting policies for each of these factors.

Criteria for Evaluation of Financial Statements

The published financial statements had to disclose each of the six factors in either the summary statement, the footnotes, the income statement, the statement of changes in financial position, or the balance sheet in order to qualify for an evaluation of adequate disclosure.

The financial statements had to disclose each of the six factors in a separate summary statement as recommended by APB Opinion 22 in order to qualify for an evaluation of an adequate manner of disclosure.

Results of Evaluation of 1971 Financial Statements Disclosures

Financial statements for the year 1971 were examined as to the disclosure of each of the six factors selected.

An examination of the sample of 120 corporate financial statements for 1971 indicated that 112 corporations (93.3 percent) disclosed the basis of consolidation; 118 corporations (98.3 percent), the depreciation method; 66 corporations (55.0 percent), the basis of amortization of intangibles; 118 corporations (98.3 percent), the inventory pricing method; 32 corporations (26.7 percent), the method for treating research and development costs; and 93 corporations (77.5 percent), the basis for translation of foreign currencies.

Table III-1 presents a summary of the results of the evaluation of the 120 published financial statements for satisfactory disclosure for each of the six factors for 1971.

The statements were further examined to determine the manner of disclosing significant accounting policies. The analysis indicated that of the 120 companies which disclosed their accounting policies, 29 corporations (24.2 percent) had disclosed the significant accounting policies in a summary statement and that 91 corporations (75.8 percent had disclosed the policies in the footnotes.

Results of Evaluation of 1972 Financial Statements Disclosures

Financial statements for the year 1972 were also examined as to the disclosure of each of the six factors. In cases of nondisclosure for any of the six factors, letters were sent to the management and the auditors of corporations to ascertain their reasons for nondisclosure. Therefore, nondisclosures determined before the inquiry were treated as tentative.

An examination of the 120 published financial statements during the year 1972 indicated that all the 120 statements (100 percent) of the sample had disclosed the basis of consolidation and depreciation method; 99 statements (82.5 percent), the basis for amortization of intangibles; 119 statements (99.2 percent), the method of inventory pricing; 78 statements (65.0 percent), the basis for treating research and development costs; and 114 statements

TABLE III-1

DISCLOSURE OF ACCOUNTING POLICIES

Disclosures	1971	
	Number	Percentage
Total	120	100.0
Policy Areas		
Consolidation Basis	112	93.3
Depreciation Method	118	98.3
Amortization of Intangibles	66	55.0
Inventory Pricing	118	98.3
Research and Development Costs	32	26.7
Translation of Foreign Currencies	93	77.5
Manner of Disclosures		
Separate Summary Statement	29	24.2
Footnotes	91	75.8

(95.0 percent), the method for translation of foreign currencies.

Table III-2 shows the tentative results of disclosure for each of the six factors selected for this study.

The corporate financial statements were further analyzed to determine the manner of disclosing significant accounting policies. The analysis indicated that 105 corporations (87.5 percent) had disclosed the policies under a summary statement and 15 corporations (12.5 percent) had disclosed the policies by footnotes.

Comparison of Practices of Disclosing Significant Accounting Policies During 1971 and 1972

Analysis of Table III-3 indicates an increase of disclosure of significant accounting policies for the year 1972. These increases show a significant improvement after the effective date of APB Opinion 22.

The increased disclosure of significant accounting policies in a summary statement from 24.2 percent to 87.5 percent during 1971 and 1972 showed an increasing compliance with the requirements of APB Opinion 22 (Tables III-1 and III-4).

Correspondence with Management and Auditors

The evaluation of the published financial statements for the year 1972 indicated instances of apparent nondisclosure for some of the factors selected for

TABLE III-2

TENTATIVE EVALUATION OF DISCLOSURE OF ACCOUNTING POLICIES

Areas of Disclosures	1972	
	Number	Percentage
TOTAL	120	100.0
Consolidation Basis	120	100.0
Depreciation Method	120	100.0
Amortization of Intangibles	99	82.5
Inventory Pricing	119	99.2
Research and Development Costs	78	65.0
Translation of Foreign Currencies	114	95.0

TABLE III-3

COMPARATIVE EVALUATION OF DISCLOSURE OF ACCOUNTING POLICIES

Areas of Disclosure	Actual 1971		Tentative 1972	
	Number	Per-centage	Number	Per-centage
TOTAL	120	100.0	120	100.0
<u>Policy Areas</u>				
Consolidation Basis	112	93.3	120	100.0
Depreciation Method	118	98.3	120	100.0
Amortization of Intangibles	66	55.0	99	82.5
Inventory Pricing	118	98.3	119	99.2
Research and Development Costs	32	26.7	78	65.0
Translation of Foreign Currencies	93	77.5	114	95.0

this study. A letter and a questionnaire were mailed to the management and the auditor of those companies which appeared not to have disclosed the significant accounting policies to ascertain the reasons for nondisclosure. The reasons for nondisclosure received from management and the auditor were then evaluated and classified as either justifiable or nonjustifiable.

A letter and a questionnaire were sent to the management and the auditor of 21 corporations regarding amortization policy for intangible assets; one corporation, regarding inventory pricing policy; 42 corporations, regarding research and development costs; and 6 corporations, regarding the basis for translation of foreign currencies. The responses received indicated 18 justifiable deviations regarding the amortization of intangibles; one justifiable deviation regarding inventory pricing; 29 justifiable deviations regarding research and development costs; and one justifiable deviation regarding the translation of foreign currencies.

To be considered justifiable, the explanation had to state that the item in question either was immaterial in amount or was not subject to the recommendation. Explanations considered nonjustifiable, usually stated either (a) the item was properly treated in the financial statements but not disclosed in the notes or a summary statement, or (b) either the management or the auditor disagreed with APB Opinion 22 recommendations. All justifiable explanations were classified as satisfactory disclosure; nonresponses and nonjustifiable explanations were classified as nondisclosure.

The final results of satisfactory disclosure for each of the six factors for 1972 are presented in Table III-4.

Hypothesis Testing and Confidence Intervals

The six factors were individually tested as to the substantial compliance with the requirements of APB Opinion 22. Substantial compliance was defined in Chapter II as at least 95 percent compliance for each of the factors tested.

Basis of Consolidation

Hypothesis Testing

H_o = There was substantial compliance regarding basis of consolidation.

H_a = There was no substantial compliance regarding basis of consolidation.

Therefore:

H_o = ≥ 95 percent

H_a = < 95 percent

In order to accept or reject the null hypothesis, the following formula was used:[10]

TABLE III-4

FINAL EVALUATION OF DISCLOSURE OF ACCOUNTING POLICIES

Areas of Disclosure	1972	
	Number	Percentage
TOTAL	120	100.0
Policy Areas		
Consolidation Basis	120	100.0
Depreciation Method	120	100.0
Amortization of Intangibles	117	97.5
Inventory Pricing	120	100.0
Research and Development Costs	107	89.2
Translation of Foreign Currencies	115	95.8
Manner of Disclosures		
Separate Summary Statement	105	87.5
Footnotes	15	12.5

$$Z = \frac{Y - np}{\sqrt{npq}}$$

where: Z = the standard normal deviate

Y = observed value

n = number of observations

p = hypothesized proportion of compliance

q = hypothesized proportion of noncompliance.

Calculations based on the formula yielded the following results:

$$Z = \frac{120 - 114}{\sqrt{120 \times .95 \times .05}} = 2.5 \text{ (the standard normal deviate)}$$

Because the Z showed a positive number of 2.5, the null hypothesis was accepted.

<u>Confidence Interval</u>

The following formula was used to compute the interval estimate with which one can be 95 percent confident that the population compliance rate falls within the range:[11]

$$\pi = P \pm Z_{.025} \sqrt{\frac{P(1-P)}{n}}$$

where: π = proportion of compliance

P = observed proportion of compliance

Z = the standard normal deviate

n = number of observations

Calculations based on the formula yielded the following results:

$$\pi = 1.00 \pm 1.96 \sqrt{\frac{1.00(1-1.00)}{120}}$$

$\pi = 100 \pm 0$ (interval estimate)

Based on the large sample method of calculations, the 95 percent confidence interval for the proportion of compliance is 1. However, one must keep in mind that, although not entirely appropriate in this case, a large sample approximation was used. The use of $\sqrt{\frac{P(1-P)}{n}}$ is as an estimate of an unknown standard deviation based on the true proportion of compliance in the population.

Depreciation Method

Hypothesis Testing

H_o = There was substantial compliance regarding depreciation method.

H_a = There was no substantial compliance regarding depreciation method.

Calculations based on the formula yielded the following results:

$$Z = \frac{120 - 114}{\sqrt{120 \times .95 \times .05}} = 2.5 \text{ (the standard normal diviate)}$$

Because the standard normal deviate showed a positive number of 2.5, the null hypothesis was accepted.

Confidence Interval

Calculations based on the formula yielded the following results:

$$\pi = 1.00 \pm 1.96 \sqrt{\frac{1.00(1-1.00)}{120}}$$

$$\tilde{\pi} = 1.00 \pm 0 \text{ (interval estimate)}$$

Amortization of Intangibles

Hypothesis Testing

H_o = There was substantial compliance regarding amortization policy for intangible assets.

H_a = There was no substantial compliance regarding amortization policy for intangible assets.

Calculations based on the formula yielded the following results:

$$Z = \frac{117 - 114}{\sqrt{120 \times .95 \times .05}} = 1.3 \text{ (standard normal deviate)}$$

Because the Z shows a positive number of 1.3, the null hypothesis was accepted.

Confidence Interval

Calculations based on the formula yielded the following results:

$$\tilde{\pi} = .975 \pm 1.96 \sqrt{\frac{.975(1-.975)}{120}}$$

$$\tilde{\pi} = .975 \pm .028 \text{ (interval estimate)}$$

Inventory Pricing

Hypothesis Testing

H_o = There was substantial compliance regarding inventory pricing.

H_a = There was no substantial compliance regarding inventory pricing.

Calculations based on the formula yielded the following results:

$$Z = \frac{120 - 114}{\sqrt{120 \times .95 \times .05}} = 2.5 \text{ (standard normal deviate)}$$

Because the Z showed a positive number of 2.5, the null hypothesis was accepted.

Confidence Interval

Calculations based on the formula yielded the following results:

$$\tilde{\Pi} = 1.00 \pm 1.96 \sqrt{\frac{1.00(1-1.00)}{120}}$$

$$\tilde{\Pi} = 1.00 \pm 0 \text{ (interval estimate)}$$

Research and Development Costs

Hypothesis Testing

H_o = There was substantial compliance regarding the method for treating research and development costs.

H_a = There was no substantial compliance regarding the method for treating research and development costs.

Calculations based on the formula yielded the following results:

$$Z = \frac{107 - 114}{\sqrt{120 \times .96 \times .05}} = -2.93 \text{ (standard normal deviate)}$$

Because the Z showed a negative number (-2.93) which is less than the critical value of -1.64 (Table of Standard Normal Distribution) the null hypothesis was rejected.

Confidence Interval

Calculations based on the formula yielded the following results:

$$\pi = .895 \pm 1.96 \sqrt{\frac{.895(1-.895)}{120}}$$

$$\pi = .895 \pm .055 \text{ (interval estimate)}$$

Translation of Foreign Currencies

Hypothesis Testing

H_o = There was substantial compliance regarding the method for translation of foreign currencies.

H_a = There was no substantial compliance regarding the method for translation of foreign currencies.

Calculations based on the formula yielded the following results:

$$Z = \frac{115 - 114}{\sqrt{120 \times .95 \times .05}} = .42 \text{ (standard normal deviate)}$$

As the Z showed a positive number of .42, the null hypothesis was accepted.

Confidence Interval

Calculations based on the formula yielded the following results:

$$\pi = .958 \pm 1.96 \sqrt{\frac{.958(1-.958)}{120}}$$

$$\pi = .958 \pm .036 \text{ (interval estimate)}$$

Overall Compliance with APB 22

Hypothesis Testing

H_o = There was substantial compliance regarding APB 22.

H_a = There was no substantial compliance regarding APB 22.

Calculations based on the formula yielded the following results:

$$Z = \frac{699 - 684}{\sqrt{720 \times .95 \times .05}} = 2.56 \text{ (standard normal deviate)}$$

Because the Z showed a positive number of 2.56, the null hypothesis was accepted.

Confidence Interval

Calculations based on the formula yielded the following results:

$$\pi = .9707 \pm 1.96 \sqrt{\frac{.9707(1-.9707)}{120}}$$

$$\pi = .9707 \pm .0301 \text{ (interval estimate)}$$

Acceptance of null hypothesis for each of the six factors required a substantial (at least 95 percent) disclosure of accounting policy. Otherwise, the null hypothesis was rejected.

The results indicated a substantial (at least 95 percent) disclosure for basis of consolidation, depreciation method, amortization of intangibles, inventory pricing, translation of foreign currencies, and for overall compliance with APB Opinion 22; therefore, the null hypothesis for each of these factors and the overall compliance was accepted. The null hypothesis for research and development costs was rejected as it did not meet the test of substantial policy disclosure. The confidence interval specified the interval estimate for each of the six factors and the overall compliance with APB Opinion 22.

Comparison of Study Findings with Those of Related Studies

Research of related literature revealed three similar studies.

In 1971, Professor Karadbil obtained and examined 125 corporate financial statements listed in the 1967 Fortune Directory to determine the practices of disclosing consolidation policy. Karadbil indicated that 114 corporations (91.2 percent) had disclosed the consolidation policy.[12] The present study, on the other hand, indicated that during 1972 all of the 120 corporations (100 percent) in the sample disclosed the consolidation policy. The increase of disclosure of consolidation policy from 91.2 percent to 100 percent between the two studies showed a significant improvement after the effective date of APB Opinion 22. The increase in disclosure of consolidation policy may be attributed in part to the differences in the nature and the size of the population. Karadbil selected 125 corporations from the population of 1967 Directory of Fortune 500, whereas this study includes the 120 respondents from the sample of 140 selected from the *Fortune* 1973 Directories of the *First*

500 and the Second 500 corporations.

T. G. Estes, Jr., completed a similar study in 1971. Professor Estes examined 103 corporate financial statements listed in the final index of Moody's Industrials for May 28, 1968, to determine the practices of disclosing the depreciation method. Estes reported that 94 corporations (91.3 percent) had disclosed the depreciation method.[13] The present study, on the other hand, indicated that, for the year 1972, all of the 120 corporations selected had disclosed the depreciation method. The increase of depreciation disclosure from 91.3 percent to 100 percent may be attributed in part to the difference in the nature and size of the population of these two studies. However, the impact of APB Opinion 22, no doubt, also had an effect in improving the disclosure of depreciation method.

In 1969, Professor Ennis examined 134 corporate financial statements listed in the 1967 Dun and Bradstreet Million Dollar Directory and other Directories to determine the practices of disclosing the basis for inventory pricing. Ennis pointed out that 129 companies (96.0 percent) had disclosed the basis of inventory pricing.[14] The present study, on the other hand, indicated that 120 corporations (100 percent) disclosed the basis for inventory pricing in 1972. The increase in disclosure from 96.0 percent to 100 percent in these two studies may be due in part to the difference in population but the impact of APB Opinion 22 also had an effect.

The present study cannot be compared with the AICPA's study reported in Accounting Trends and Techniques of 1973 because of the dissimilarities in the nature and the size of the population and the methodology of the two studies. The AICPA selected a sample of 600 corporations, of which 230 were the largest domestic industrial companies in the annual Fortune Directory and merchandisers with sales in excess of a billion dollars and 370 were small companies audited by CPA firms. On the other hand, for this study 140 corporations were selected from the 1973 Fortune Directories of the First 500 and Second 500 corporations and 120 responded. The AICPA considered compliance with APB Opinion 22 only when the policies were disclosed in a separate summary statement. For this study, however, compliance was considered if the policies were disclosed in either the summary statement, the footnotes, the income statement, the statement of changes in financial position, or the balance sheet. However, the criteria in both studies are similar for evaluating the manner of disclosure and hence can be compared. The AICPA pointed out that, in their sample of 600 corporations, 503 (83.8 percent) corporations disclosed the accounting policies in a separate summary statement. The present study, on the other hand, indicated that in the sample of 120 corporations, 105 (87.5 percent) corporations disclosed the accounting policies in a separate summary statement. The increase of disclosure in a separate summary statement from 83.8 percent in the AICPA study to 87.5 percent in this study may be attributed, in part, to the differences in the nature and the size of the population of these two studies.

Summary

In 1971, the overall rate of disclosure in the sample was 74.9 percent, while the disclosure for the individual factors varied from 26.7 percent to 98.3 percent. During 1972, the overall rate of disclosure of the six factors selected for this study was 97.1 percent, while the individual rate of disclosure varied from 89.2 percent to 100 percent. The increase from 74.9 percent in 1971 to 90.3 percent tentative in 1972, in the overall rate of disclosure, seems to indicate a significant improvement after the effective date of APB Opinion 22.

In the sample of 120 corporations, only 29 presented the significant accounting policies in a summary statement in 1971. However, for 1972, 105 corporations presented significant accounting policies in a summary statement. This increase in the use of a summary statement method of presentation from 29 corporations to 105 corporations indicated a significant improvement after the effective date of APB Opinion 22.

Footnotes

[1]New York Stock Exchange, New York Stock Exchange 1969 Fact Book (New York, 1968), p. 36. See also L. L. Karadbil, "On the Disclosure Function of Financial Reporting for Intercorporate Investments in Controlled Corporations" (Unpublished Ph.D. dissertation, The American University, Washington, D.C., 1971), p. 9.

[2]Peter Vanderwicken, ed., The Fortune Directory of the 500 Largest Industrial Corporations, and Lawrence A. Mayer, ed., The Fortune Directory of the Second 500 Largest Industrial Corporations (New York: May and June, 1973), pp. 221 and 155.

[3]William Lerner, "Statistical Abstract of the United States," 94th Edition (Washington, D.C.: U.S. Government Printing Office, 1973), p. 460.

[4]Surendra Singh Singhvi, "Corporate Disclosure through Annual Reports in the United States of America and India" (Unpublished Ph.D. dissertation, Columbia University, New York, 1971), p. 25.

[5]Ibid., p. 27.

[6]Manuel F. Cohen, Chairman, Securities and Exchange Commission (Speech at 79th Meeting of the American Institute of Certified Public Accountants), "The SEC and Accountants: Cooperative Efforts to Improve Financial Reporting," The Journal of Accountancy, December 1966, p. 57. See also L. L. Karadbil, "On the Disclosure Function of Financial Reporting for Intercorporate Investments in Controlled Corporations" (Unpublished Ph.D. dissertation, The American University, Washington, D.C., 1971), p. 12.

[7]Ibid., p. 11.

[8]Andrew Barr, "Trends in Corporate Financial Reporting," Financial Executive, September 1967, p. 22.

[9]Accounting Principles Board Opinion No. 22: Disclosure of Accounting Policies (New York: AICPA, 1972), p. 435.

[10]Edward C. Bryant, Statistical Analysis (New York: McGraw-Hill Book Company, Inc., 1966), p. 110.

[11]Thomas H. Wonnacott and Ronald J. Wonnacott, Introductory Statistics (New York: John Wiley & Sons, Inc., 1972), p. 175.

[12] L. L. Karadbil, "On the Disclosure Function of Financial Reporting for Intercorporate Investments in Controlled Operations" (Unpublished Ph.D. dissertation, The American University, Washington, D.C., 1971), p. 72.

[13] T. G. Estes, Jr., "An Investigation of Compliance with and Desirability of Depreciation Disclosure Requirements in Accounting Principles Board Opinion No. 12" (Unpublished Ph.D. dissertation, University of Arkansas, 1971), p. 75.

[14] Leon Martin Ennis, "An Evaluative Study of the Acceptance and Nonacceptance of Certain Recommendations of AICPA" (Unpublished Ph.D. dissertation, University of North Carolina at Chapel-Hill, 1972), p. 88.

CHAPTER IV

AN ANALYSIS AND EVALUATION OF CHARTERED FINANCIAL ANALYSTS' RESPONSES ON THE USEFULNESS OF DISCLOSURE OF ACCOUNTING POLICIES

Introduction

Financial analysts are the major avid consumers of published financial statements.[1] In the preparation of financial statements, accountants have a responsibility to consider financial analysts' needs and wants.[2] The financial analysts' information needs are not independent of investors but are derived from the wants and needs of investors; they counsel and advise.[3] As professional investment sophisticates who demand and deserve full and accurate corporate information, they affect a large percentage of investment capital and are very influential people in stock markets.[4] The observation has been made that:

> Analysts may swing as much as $30 million into or out of a stock through recommendations to their firms' individual and institutional accounts. Such men can truthfully be said to be among the most powerful men in Wall Street.[5]

It has been assumed that adequate disclosure of accounting policies in financial statements is essential for analysts to counsel and advise investors in their investment decisions. Accordingly, on April 1, 1971, the Accounting Principles Board of the American Institute of Certified Public Accountants issued Opinion No. 22, which required the disclosure of significant accounting policies used by a corporation in its published financial statements.[6]

The purpose of this chapter is to determine (1) the usefulness to financial analysts of the disclosure of accounting policies, and (2) the procedures adopted by financial analysts in analyzing financial statements when alternate accounting methods have been employed.

A sample of 200 Chartered Financial Analysts (CFAs) for this study was selected at random from the 1973 Membership Directory of the Financial Analysts Federation. A questionnaire was prepared and mailed to the 200 CFAs for their response (a copy of the questionnaire is included as Appendix A, Exhibit 3). The rate of response was 39.5 percent (Table IV-1).

Analysis of Responses

The discussion focuses on analysis of responses regarding disclosures in general, disclosure of specific items and other information, format for disclosure of accounting policies, and the procedures used in comparing financial statements when confronted with alternate accounting methods. The responses were first treated on an overall basis and then analyzed according to type of firm, employment status, and experience of respondents.

TABLE IV-1

CLASSIFICATION OF RESPONDENTS (CFAs)

Category	No.	Percentage
Total	79	100.0
Type of Firm		
National	34	43.0
Regional	35	44.3
Local	10	12.7
Employment Status		
Partner	21	26.6
Manager	23	29.1
Analyst	22	27.8
Other	13	16.5
Length of Experience		
0-5 Years	11	13.9
6-10 Years	17	21.5
Over 10 Years	51	64.6

Overall Analysis of Responses

General Statements

Five general statements included in the questionnaire were designed to ascertain the opinion of the CFAs concerning the usefulness of the disclosure of accounting policies. The analysts were asked to respond to each of the five statements by giving one of the following answers: (1) Strongly Agree, (2) Agree, (3) Undecided, (4) Disagree, and (5) Strongly Disagree. For purposes of analysis, the responses were classified in the following three categories: (1) Agree (includes strongly agree and agree), (2) Undecided, (3) Disagree (includes disagree and strongly disagree).

Statements 1 and 4 of Part I of the questionnaire were designed to determine the usefulness of the disclosure of the accounting policies in making investment decisions and in evaluating management performance and efficiency. Substantial agreement among the respondents indicates that the disclosure of accounting policies was useful in making investment decisions and in evaluating management performance and efficiency. One hundred percent of the respondents favored the disclosure of accounting policies (Table IV-2). On the basis of this finding the conclusion can be drawn that financial analysts feel that significant accounting policies followed by a business should be disclosed in published financial statements as recommended by APB Opinion 22. For purposes of this study, the significant

TABLE IV-2

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE GENERAL STATEMENTS

Statement	Agree		Undecided		Disagree	
	No.	Percentage	No.	Percentage	No.	Percentage
Total	79	100.0	79	100.0	79	100.0
1. Disclosure of accounting policies is useful (Statement 1, Part I of the questionnaire)	79	100.0	--	--	--	--
2. APB 22 has overcome the inadequate disclosure of accounting policies (Statement 2, Part I of the questionnaire)	32	40.5	39	49.4	8	10.1
3. Accounting policies should be disclosed in unaudited interim reports (Statement 3, Part I of the questionnaire)	52	65.8	7	8.9	20	25.3
4. Disclosure of accounting policies is useful to evaluate management performance and efficiency (Statement 4, Part I of the questionnaire)	75	95.0	4	5.0	--	--
5. APB 22 has eliminated the preferential practices (Statement 5, Part I of the questionnaire)	46	58.2	23	29.1	10	12.7

accounting policies were defined to be the six selected policies discussed in Chapter III of this study. Other significant accounting policies were excluded for the purpose of this study.

Statements 2 and 5 of Part I of the questionnaire ascertained the opinion of the respondents as to whether APB Opinion 22 has overcome the past inadequate disclosure of accounting policies and has eliminated the preferential practice of making the policy information available to the analysts. Approximately 50 percent of the respondents agreed that APB Opinion 22 has overcome the deficiency of inadequate disclosure practice and has eliminated the preferential practice of making the policy information available to analysts (Table IV-2). Therefore, the conclusion can be drawn that APB Opinion 22 has, in the opinion of those surveyed, become fully effective.

Statement 3 of Part I of the questionnaire ascertained the opinion of the respondents as to whether accounting policies should be disclosed in unaudited, interim reports. Over 65 percent of the respondents indicated that the accounting policies should be disclosed in unaudited, interim reports. This finding contradicts the recommendation of APB Opinion 22.

Specific Statements

Forty-two specific statements included in Part II of the questionnaire were designed to ascertain the opinion of the CFAs concerning the usefulness of the disclosure of specific accounting policies and the other specific information. Each of the forty-two statements was to be answered by giving one of the following answers: (1) Essential, (2) Extremely Useful, (3) Useful, (4) Not Particularly Useful, and (5) Unnecessary. For purposes of analysis, the responses were classified into the following two categories: (1) Useful (includes essential, extremely useful, and useful) and (2) Unnecessary (includes not particularly useful and unnecessary).

Fifteen statements (1, 8, 12, 13, 15, 17, 18, 20, 24, 25, 29, 39, 40, 41, and 42) of Part II of the questionnaire sought the opinions of the respondents as to the usefulness of the disclosure of specific items such as consolidation policy, depreciation method, and inventory pricing method in making investment decisions and in evaluating management performance and efficiency. More than 82 percent of the respondents indicated that the suggested disclosure of the specific accounting policies was useful in making investment decisions and in evaluating management performance and efficiency (Table 1, Appendix B).

The statement concerning the disclosure of the method used in computing earning per share received the highest rating (100 percent). The fact that 82 percent was the lowest rate of response among the fifteen specific statements indicates a strong approval of the disclosure of specific accounting policies. On the basis of this finding, the conclusion can be drawn that all the significant accounting policies followed by a business should be disclosed.

Twenty-seven statements were designed to obtain the opinions of the respondents as to the usefulness of the disclosure of specific information such as useful lives of depreciable assets, amount of inventory, and terms of long-term leases in making investment decisions and in evaluating management efficiency. Over 77 percent of the respondents indicated that the disclosure of the information was relevant in making investment decisions and evaluating management performance and efficiency. The analysis of the responses to the specific statements is presented in Table 1, Appendix B. The statements concerning remaining useful lives of intangible assets and the terms of long-term leases received the lowest rating (77.2 percent), whereas some items such as earnings per share and breakdown of inventory received the highest rating (over 97 percent). This substantial agreement among respondents indicates a strong approval of the disclosure of specific information in financial statements. On the basis of this finding, the conclusion can be drawn that, in the opinion of the respondents, specific information should be disclosed in published financial statements.

Format and Location of Disclosures

Two statements in Part III of the questionnaire were designed to ascertain the opinions of the CFAs as to the format and the location of disclosure of accounting policies in financial statements. The analysts were asked to respond to Statement 1 by giving one of the following answers concerning the format of disclosures: (1) Flexible format or (2) Standardized format. For Statement II, the analysts were asked to respond by giving one of the following answers concerning the location of disclosures: (1) Summary statement of accounting policies following the financial statements and (2) Summary statement of accounting policies preceding the financial statements.

Approximately 58 percent of the respondents indicated that they favored a flexible format for the disclosure of accounting policies in financial statements. The preference for a flexible format concurs with the recommendation of the APB Opinion 22. More than 64 percent of the respondents indicated that they preferred that the disclosure of significant accounting policies appear before rather than after the financial statements (Table IV-3).

Alternate Accounting Methods

The respondents were also asked to indicate the procedures they used in comparing the financial statements when

TABLE IV-3

SUMMARY OF EVALUATION OF CFAs RESPONSES
ABOUT THE FORMAT OF DISCLOSURES

Statement	No.	Percentage
Total	79	100.0
Statement 1 (Statement 1, Part III of the questionnaire)		
(A) Flexible Format	46	58.2
(B) Standardized Format	33	41.8
Statement 2 (Statement 2, Part III of the questionnaire)		
(A) Summary Statement Following the Financial Statement	28	35.4
(B) Summary Statement Before the Financial Statement	51	64.6

using alternate accounting methods. Three statements in Part IV of the questionnaire were designed to obtain the procedures employed to adjust for different accounting methods regarding inventory, depreciation, and research and development costs. One half of the 79 respondents answered Part IV of the questionnaire. However, only 2 indicated that they did not make any adjustment to the net income in comparing financial statements prepared with alternate accounting methods (Table IV-4). Although asked, none of the respondents provided any specific procedures for adjusting the net income when confronted with alternate accounting methods in comparing financial statements. Therefore, no conclusions can be drawn concerning any procedures that may be used to make adjustment for differing accounting methods. However, it would appear that any such adjustments could be rough estimates at best, which may or may not result in more comparable data.

Type of Firms

The respondents' data were classified by the type of firm to determine the extent of either agreement or disagreement among national, regional, and local firms.

General Statements

The results of analysis by the type of the firm for

TABLE IV-4

SUMMARY OF EVALUATION OF CFAS' RESPONSES REGARDING ALTERNATE ACCOUNTING METHODS

Part IV, Questionnaire Statement	No.
Total Responding to the Questionnaire	79
Total Responding to Part IV, Questionnaire	39
Statement 1: Depreciation	
Making Adjustments	37
No Adjustment	2
Statement 2: Inventories	
Making Adjustment	37
No Adjustment	2
Statement 3: Research and Development Costs	
Making Adjustment	37
No Adjustment	2

general statements are presented in Table 2, Appendix B. This table reveals no substantial disagreement by the type of the firm as to the usefulness of the disclosure of accounting policies in making investment decisions and in evaluating management performance and efficiency.

Over 65 percent of the responding regional firms, whereas, over 50 percent of the national and local firms, reported that they felt that APB Opinion 22 has eliminated the preferential practice of making the policy information available to the analysts.

There was no substantial disagreement by type of the firm as to the disclosure of significant accounting policies in unaudited, interim financial statements in view of the fact that 64.7 percent of national firms, 65.7 percent of regional firms, and 70 percent of the local firms favored such disclosures (Table 2, Appendix B).

Specific Statements

More than 77 percent of the national and regional firms favored the disclosure of specific statements and other information in making investment decisions and in evaluating management performance and efficiency, whereas only 60 percent of the local firms favored the disclosures of such information (Table 3, Appendix B).

Format and Location of Disclosures

There was considerable disagreement among the type of firms as to the format and location of disclosure of accounting policies. More than 60 percent of the national and regional firms favored a flexible format for the disclosure of accounting policies and the placement of the disclosures preceding the financial statements, whereas, only 20 percent of the local firms responding favored such a format and placement (Table 4, Appendix B).

Alternate Accounting Methods

Table 5, Appendix B, reveals substantial agreement among national, regional and local firms concerning adjustments to the net income when faced with alternate accounting methods, inasmuch as only one national and one local firm did not make adjustments to the net income when faced with alternate accounting methods.

Summary

The regional firms, more so than either the national and the local firms, indicated that the APB Opinion 22 has overcome the inadequate disclosure of accounting policies and also has eliminated the preferential practice of making the policy information available to analysts. A flexible format for the disclosure of accounting policies and the placement of such policies preceding the financial statements were favored more by the national and the regional firms than by the local firms. Furthermore, the regional and the local firms, more so than the national firms, favored the adjustments to the net income when confronted with alternate accounting methods in comparing financial statements. The conclusion can be drawn that the only significant difference in the format by the type of firm is the finding that over 60 percent of national and regional firms favored a flexible format for the disclosure of accounting policies and only 20 percent of local firms favored such a format.

Employment Status

The responses were also analyzed according to the employment status of the respondents such as partners, managers, analysts, and others to determine the extent of either agreement or disagreement among the employment classifications.

General Statements

The analysis indicated no significant disagreement among the employment status of the respondents as to the usefulness of accounting policies in making investment decisions and in evaluations of management performance and efficiency. However, only 85 percent of the partners, whereas 100 percent of the managers, analysts, and 92.3 percent of others indicated that the disclosure of accounting policies was useful in evaluations of management performance and efficiency (Table 6, Appendix B).

Approximately 86 percent of the managers, 57 percent of the partners, 54 percent of the analysts, and 61 percent of others favored disclosures of accounting policies in unaudited interim reports (Table 6, Appendix B).

Specific Statements

Table 7, Appendix B, reveals that no substantial disagreement exists as to the disclosure of specific policies and other information according to the employment status of the respondents.

Format and Location of Disclosures

Employment status did not reveal a significant difference in the preference for a flexible format and the location of the disclosure of accounting policies. Strongest preference was for a flexible format for the disclosure of accounting policies and placement of such policies preceding the financial statements.

Alternate Accounting Methods

On the basis of employment status of the respondents, the analysis reveals no significant difference in making adjustments to the net income when facing alternate accounting methods. One partner and one individual in the other category reported that they made no such adjustments (Table 9, Appendix B).

Summary

Managers, more so than either the partners, the analysts, or others, favored the disclosure of accounting policies in unaudited, interim financial statements. A flexible format for the disclosure of accounting policies and the placement of such policies preceding the financial statements were favored most by the partners. Analysts and others, more so than either the managers or the partners, indicated that they adjusted the net income when confronted with alternate accounting methods in comparing financial statements. The conclusion can be drawn that the employment status of the respondents revealed no significant differences in disclosure practice.

Experience Groups

The respondents' opinions were also classified according to their years of experience (0-5 years, 6-10 years, and over 10 years) to ascertain the extent of either agreement or disagreement among the experience groups.

General Statements

No significant difference has been noted among the experience groups as to the usefulness of the disclosure of accounting policies in making investment decisions and in evaluating management performance and efficiency.

Table 10, Appendix B, reveals that about 18 percent of 0-5 years, 47 percent of 6-10 years, and about 43 percent of over 10 years experienced respondents felt that the APB Opinion 22 has overcome the past inadequate disclosure of accounting policies.

Specific Statements

The analysis by experience groups did not reveal a significant difference as to the usefulness of the disclosure of specific policies and other information relevant in making investment decisions and in evaluating management performance and efficiency.

Format and Location of Disclosures

Over 63 percent of the least experienced group (0-5 years) and over 56 percent of the more experienced groups (6-10 and over 10) favored a flexible format for the disclosure of accounting policies.

Placement of the disclosures preceding the financial statements was favored by 72.6 percent of the group with most experienced (over 10 years), 63 percent of the less experienced group (6-10 years), and 54.6 percent of the least experienced group (0-5 years).

Alternate Accounting Methods

The analysis of data on the basis of the experience of the respondents reveals no significant difference concerning alternate accounting methods. One respondent with 0-5 years' experience and one respondent with over 10 years' experience indicated that they did not make adjustments to the net income when facing alternate accounting methods (Table 13, Appendix B).

Summary

The respondents with 0-5 years' experience, more so than the respondents with either 6-10 years' experience or over 10 years' experience, felt that APB Opinion 22 has eliminated the preferential practice of making the policy information available to analysts. The conclusion can be drawn that there was no significant difference in the disclosure practice of the respondents on the basis of their experience.

Hypotheses Testing and Determining the Confidence Intervals

The hypotheses for this study were stated in Chapter II. To determine the statistical significance of the data collected concerning the usefulness of the disclosure of accounting policies in making investment decisions and in evaluating management performance and efficiency, the hypotheses were tested and the confidence intervals were computed. For a finding of usefulness of the disclosure of accounting policies, at least 95 percent of the respondents had to favor such disclosures.

Hypothesis Testing 1

H_o = The disclosure of accounting policies is useful in investment decisions.

H_a = Is not useful in investment decisions.

Therefore:

$H_o = \geq 95$ percent

$H_a = < 95$ percent

To accept or reject the null hypothesis, the following formula was used:[7] (the symbols used in the formula are explained in Chapter III of this study):

$$Z = \frac{Y - np}{\sqrt{npq}}$$

Calculations based on the formula yielded the following results:

$$Z = \frac{200 - 190}{\sqrt{200 \times .95 \times .05}} = 3.2 \text{ (Normal Standard Deviate)}$$

Because the Z showed a positive number, the null hypothesis, that the disclosure of accounting policies is useful in investment decisions, was accepted.

Confidence Interval 1

The following formula was used to compute the interval estimate with which one can be 95 percent confident that the population compliance rate falls within the range.[8] (The symbols used in the formula are explained in Chapter III of this study.)

$$\tilde{\Pi} = P \pm Z_{.025} \sqrt{\frac{P(1-P)}{n}}$$

Calculations based on the formula yielded the following results:

$$\tilde{\Pi} = 1.00 \pm 1.96 \sqrt{\frac{.97(1-.97)}{120}}$$

$$\tilde{\Pi} = 1.00 \pm .094 \text{ (Interval Estimate)}$$

Based on the large sample method of calculations, the 95 percent confidence interval for the proportion of compliance is 1.00 $\pm$ .094.

Hypothesis Testing 2

H_o = The disclosure of accounting policies is useful to analysts to better evaluate management performance and efficiency.

H_a = Is not useful to analysts to better evaluate management performance and efficiency.

Calculations based on the formula yielded the following results:

$$Z = \frac{194 - 190}{\sqrt{194 \times .95 \times .05}} = 1.2 \text{ (Normal Standard Deviate)}$$

Because the Z showed a positive number, the null hypothesis, that the disclosure of accounting policies is useful to analysts to better evaluate management performance and efficiency, was accepted.

Confidence Interval 2

Calculations based on the formula yielded the following results:

$$\pi = .97 \pm 1.96 \sqrt{\frac{.97(1-.97)}{120}}$$

$$\pi = .97 \pm .094 \text{ (Interval Estimate)}$$

Acceptance of null hypothesis for each of the two tests required a substantial (at least 95 percent) agreement among CFAs in the sample that the disclosure of accounting policies was useful in investment decisions and in evaluating management efficiency.

The results indicated a substantial (at least 95 percent) agreement among the CFAs in the sample as to the usefulness of the disclosure of accounting policies in making investment decisions and in evaluating management performance and efficiency. The confidence interval specified the interval estimate for each of the two questions.

Summary

Financial analysts are the major users of published financial statements.[9] Adequate disclosure of corporate accounting policies is useful for analysts to advise the investors in making investment decisions.

Most of the respondents agreed that the disclosure of accounting policies was useful in making investment decisions and in evaluating management performance and efficiency. The respondents also felt that APB Opinion 22 has eliminated the preferential practice of making the policy information available to some analysts. More than one-half of the respondents favored a flexible format and the placement of disclosures preceding the financial statements. Respondents to Part IV of the questionnaire indicated that they made adjustments to net income when facing alternate accounting methods in comparison of financial statements. The respondents did not indicate the procedures that they used in adjusting net income.

On the basis of type of firm, there was a significant difference in responses as to whether APB Opinion 22 has overcome the past inadequate disclosure of accounting policies and also in eliminating the preferential practice of making the policy information available to analysts. The regional firms, more so than either the national or the local firms, felt that APB Opinion 22 had a significant impact on the past disclosure practice. The national and the regional firms, more so than the local firms, favored a flexible format for the disclosure of accounting policies.

On the basis of employment status of the respondents, there was a significant difference in their responses as to the disclosure of accounting policies in unaudited interim financial reports. Managers favored the disclosure of accounting policies in unaudited interim reports more than any other group.

The experience of the respondents was a significant factor in their responses as to whether APB Opinion 22 has overcome the inadequate disclosure of accounting policies. The most experienced respondents more so than the least experienced, felt that the APB Opinion 22 has overcome the past inadequate disclosure of accounting policies.

Footnotes

[1]Charles T. Horngren, "Implications for Accountants of the Uses of Financial Statements by Security Analysts" (unpublished Ph.D. dissertation, University of Chicago, 1955), p. 8.

[2]*Ibid.*, p. 8.

[3]Gyan Chandra, "Disclosure: A Study of the Consensus among Public Accountants and Security Analysts" (unpublished Ph.D. dissertation, Ohio State University, 1971), p. 79.

[4]Charles T. Horngren, "Disclosure: 1957," *Accounting Review*, October, 1957, p. 598.

[5]Charles E. Silberman, "Wall Street's Influential Analysts," *Fortune*, LV (January, 1957), pp. 3 and 127. See also Surrendra Singh Singhvi, "Corporate Disclosure through Annual Reports in the United States of America and India" (unpublished Ph.D. dissertation, Columbia University, 1967), p. 38.

[6]*Accounting Principles Board Opinion No. 22: Disclosure of Accounting Policies* (New York: American Institute of Certified Public Accountants, 1972), p. 435.

[7]Edward C. Bryant, *Statistical Analysis* (New York: McGraw-Hill Book Company, Inc., 1966), p. 110.

[8]Thomas H. Wonnacott and Ronald J. Wonnacott, *Introductory Statistics* (New York: John Wiley & Sons, Inc., 1972), p. 175.

[9]Horngren, *op. cit.*, p. 8.

CHAPTER V

SUMMARY AND CONCLUSIONS

At present, the accounting profession is in an unsettled state and is receiving considerable criticism from within and without the profession. In 1972 the Financial Accounting Standards Board assumed responsibility for resolving controversies arising from disclosure problems that the Accounting Principles Board (APB) had failed to resolve. In its Opinion 22, the APB acknowledged the inadequacy of disclosure practices of accounting policies in financial statements.[1] The APB further stated that some business firms are including such disclosures as an integral part of financial statements, while others are treating disclosures as supplemental information. A few corporations include footnote descriptions of their significant accounting policies; however, most had disclosed no such information. To remedy this inadequate disclosure practice, on April 1, 1971, the APB issued Opinion No. 22, which required the disclosure of significant accounting policies used by a corporation in its published financial statements.[2] Furthermore, in 1972 the Securities and Exchange Commission proposed an amendment to Rule 2-08 of Regulation S-X to require the disclosure of significant accounting policies. The initial proposal was revised in October, 1973, with a request for public comment. No action has been taken by the SEC as a result of this exposure as of the date of this study.

At present, there is no procedure for monitoring published financial statements in an attempt to determine the extent of compliance with the recommendations of the AICPA.[3] In fact, research of accounting literature has revealed no extensive study and no evaluation of (a) either adherence or nonadherence to the APB Opinion 22 and (b) the determination of the usefulness of the disclosure of significant accounting policies.

The purpose of this study was to determine empirically the impact of APB Opinion 22 on the practice of disclosing accounting policies in published financial statements. Furthermore, the purpose of this study was to determine the usefulness to financial analysts of the disclosure of accounting policies and the procedures adopted by analysts in analyzing financial statements when faced with alternate accounting methods.

Results of Evaluation of the APB Opinion 22

The six factors mentioned in Chapter III of this study were selected from the recommendations of the APB Opinion 22 to evaluate published financial statements for the years 1971 and 1972. A random sample of annual published financial statements for the years 1971 and 1972 of United States industrial corporations was selected, obtained, and analyzed. Criteria for the evaluation of each of the six factors were established and applied in the evaluation of the financial statements. In cases of apparent noncompliance, for the year 1972, the management and the auditor of the company were asked to explain the reason for the apparent noncompliance. The management's and auditor's responses were evaluated to obtain a final determination of compliance or noncompliance with each of the criteria established for the six factors. The statements for the years 1971 and 1972 were also examined as to the manner of disclosure of accounting policies. A hypothesis was tested and a confidence interval was calculated for each of the six factors and the overall compliance with the APB Opinion 22.

An examination of the 1971 statements revealed that the overall rate of disclosure in the sample was 74.9 percent, while the individual factors varied from 26.7 percent to 98.3 percent. The analysis further indicated that 24.2 percent of the corporations had disclosed the significant accounting policies in a summary statement.

The analysis for the year 1972 revealed that the overall rate of disclosure of the six factors selected was 97.1 percent, while the individual rate of disclosure varied from 86.2 percent to 100 percent. In addition, the analysis indicated that 87.5 percent of corporations disclosed significant accounting policies in a separate summary statement.

In instances of apparent nondisclosure for each of the six factors, a letter and a questionnaire were sent to the management and the auditor of the corporation for their justification of the apparent noncompliance. The length of the answers ranged from one word, "immaterial;" to a half-page letter. Most of the managers and the auditors of the companies indicated "immaterial" as their explanation of noncompliance.

If the criterion of at least 95 percent compliance is considered as constituting "substantial compliance," then each of the five factors examined fulfilled the criterion. The disclosure of the methods used for treatment of research and development costs did not meet this criterion.

A similar study by Professors Karadbil, Estes, Jr., and Ennis, discussed in Chapter III, completed in 1967, 1968, and 1969, produced a lower level of compliance regarding the disclosure of consolidation policy, the depreciation method, and the basis for inventory pricing. Karadbil's findings show 91.2 percent compliance (114/125) regarding consolidation basis; Estes' findings, 91.3 percent compliance (94/103) regarding depreciation method; and Ennis' findings show 96.0 percent (129/134) regarding inventory pricing. This study indicated a 100 percent compliance with regard to consolidation basis, depreciation method and inventory pricing. Based upon these findings APB 22 appears to have had a desirable impact on the disclosure of accounting policies in published financial statements.

Results of Evaluation of CFAs' Responses on the Usefulness of Disclosure of Accounting Policies

To determine the usefulness to financial analysts of the disclosure of accounting policies in making investment decisions and in evaluating management performance and efficiency, a random sample of CFAs was selected from the 1973 Membership Directory of the Financial Analysts Federation. A questionnaire was prepared and mailed to the CFAs for their responses. The 39.5 percent response to the questionnaire was in line with similar studies polling CFA firms. The questionnaire was divided into five parts, regarding general statements, specific statements, format and location of disclosures, and methods of handling alternate accounting methods. An hypothesis was tested and the confidence interval was calculated for each of two statements: (1) the disclosure of accounting policies is useful in making investment decisions and (2) the disclosure of accounting policies is useful in better evaluating management performance and efficiency.

If a minimum 95 percent acceptance is considered as constituting "substantial compliance," then the two statements concerning the usefulness of the disclosure of accounting policies in making investment decisions and in evaluating management performance and efficiency meet this criterion.

The findings revealed that the respondents found the disclosure of accounting policies useful in making investment decisions and in evaluating management performance and efficiency. Over one-half of the respondents felt that APB 22 has eliminated the preferential practice of making the policy information available to analysts. The respondents favored the disclosure of accounting policies in unaudited interim reports. Furthermore, respondents favored a flexible format for the disclosure of accounting policies and the placement of such policies preceding the financial statements. Among the 39 respondents who answered part IV of the questionnaire concerning the alternate accounting methods, 2 respondents indicated that they did not make adjustment to the net income in comparing financial statements constructed with alternate accounting methods. Although asked, none of the respondents provided any specific procedures for adjusting net income. However, it would appear that any such adjustments to the net income could be rough estimates, which may or may not result in more comparable data. When analyzed by type of firm, employment status, and experience of the respondents, the data reveal no significant difference except that over 60 percent of national and regional firms favored a flexible format for the disclosure of accounting policies and only 20 percent of the local firms favored such a format. The reason for this exception may be the flexible format is not so helpful as the standardized format for disclosure of accounting policies in the analysis of financial statements.

Conclusions

The study indicated a high degree of compliance with APB 22 recommendations regarding the selected six factors.

David Norr, a member of the Accounting Principles Board (1972) stated:

> The APB has approved an opinion calling for a Statement of Accounting Policies as a part of financial statements (Accounting News--Letter No. 15, February 14, 1972). I filed a qualified assent.
>
> The forthcoming opinion is simply not responsive to the investors' needs. Today we need a set of standards, industry by industry. This is a task that should be undertaken, and could have been undertaken over the last forty years, by the SEC, the Financial Executives Institute, the various trade associations such as the American Petroleum Institute, and the accountants. Then the dollar deviation from standard practice should be spelled out. . . . Today a mere statement of policies does little to enlighten the reader.
>
> As long as there are alternatives the mere statement that a company follows one policy provides only a whiff of what must be known. The investor needs data that are comparable. He isn't getting what he needs.[4]

David Norr was of the opinion that mere disclosure of accounting policies in financial statements is not serving the needs of the users of the financial statements unless and until the dollar deviation from a standard practice is disclosed.

In 1973, the SEC published a revised proposal with a request for public comment. "The proposed rule requires that, in the event of the change in the accounting principles followed, the impact of the change on net income shall be disclosed for two years."[5]

The analysis indicated that APB Opinion 22 had a significant impact on the method of disclosure of significant accounting policies. The disclosure of such policies in a separate summary statement increased from 24.2 percent in 1971 to 87.5 percent in 1972.

Furthermore, as a result of this study the following conclusions have been drawn:

1. The disclosure of accounting policies is useful in making investment decisions and in evaluating management performance and efficiency.
2. Adjustments to net income when facing alternate accounting methods in comparing financial statements are made by the vast majority of respondents.
3. The disclosure of accounting policies in unaudited, interim financial reports is desirable.
4. There is a strong preference among the CFAs surveyed for disclosing accounting policies in a flexible format preceding the financial statements.

Recommendations

As a result of this study, the following recommendations are offered and proposed for further research studies.

1. Accounting policies should be disclosed in unaudited, interim reports as well as in the annually published financial statements.
2. Accounting policies being used should be presented in a flexible format preceding the financial statements.

3. Whereas this study was limited to the 1000 largest U.S. industries listed in the Fortune Directories, a similar study should be undertaken of the smaller firms to determine the disclosure of accounting policy practice.
4. A similar study of Certified Public Accountants (CPAs) should be undertaken to ascertain whether the views of CPAs are in any way similar with those of CFAs reported in this study.
5. A study should be undertaken to determine methods which might be employed to compare financial statements constructed with alternate accounting methods.

Footnotes

[1]Accounting Principles Board, Opinion No. 22: Disclosure of Accounting Policies (New York: AICPA, 1972), p. 433.

[2]Ibid., p. 435.

[3]William W. Grigsby, Jr., "An Evaluation of Selected Corporation Annual Reports for Compliance with Certain Recommendations of the American Institute of Certified Public Accountants" (unpublished Ph.D. dissertation, University of Oklahoma, 1973), p. 121.

[4]Accounting News Letter No. 17, The New York Society of Security Analysts, Inc. (New York, May 11, 1972), pp. 5, 6.

[5]Haskins & Sells, The Week in Review 73-41 (Houston, Texas, October 12, 1973), p. 10.

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APPENDIX A

SPECIMEN LETTERS AND QUESTIONNAIRES SENT TO PARTICIPANTS

LIST OF EXHIBITS

EXHIBIT 1

October 5, 1973

Gentlemen:

I am writing a dissertation for the Doctor of Philosophy in Accounting at the University of Oklahoma on the Disclosure of Significant Accounting Policies in published financial statements. A major part of my dissertation involves a comparative evaluation of the disclosure of significant accounting policies in selected annual reports for the years ending December 31, 1971 and 1972. Your annual reports have been selected for inclusion in my study.

The annual reports for my study were selected at random (using a random number table) from the 1000 largest United States industrial corporations listed in the Fortune's directory of 1973.

Therefore, would you please send me copies of your annual reports for the years 1971 and 1972. Receiving these reports within the next two weeks would allow me to complete my dissertation on schedule.

Your prompt response would be most appreciated.

Sincerely yours,

Kailas J. Rao

KJR/pjd

EXHIBIT 2

December 17, 1973

Gentlemen:

Currently, I am engaged in a research study to determine the disclosure of accounting policy practices in published financial statements. The annual report referred to on the attached questionnaire was selected at random for inclusion in my study from the 1000 largest United States industrial corporations listed in the Fortune's directory of 1973.

In this study, I am attempting to procure answers to the specific questions found attached herewith. The success of this study is dependent upon your honest and unreserved answers to the questions.

In order to preserve anonymity, please be assured that your answers will be held in the strictest confidence. Neither the name of the company nor the auditing firm will be disclosed in the research findings.

The attached questions are not intended to be of any criticism of the financial statement or the disclosure practices. I am merely attempting to secure the reasons why you are apparently not adhering to the Accounting Principles Board of the American Institute of Certified Public Accountant's Opinion Number 22. The results of the study may help the Financial Accounting Standards Board to determine the strengths and weaknesses of this Opinion.

Therefore, would you please answer the questions attached herewith and return them to me in the enclosed, self-addressed envelope?

Your prompt response would be most appreciated.

Sincerely yours,

Kailas J. Rao

Enclosure: Questionnaire

Corporation:

Financial Statement Date:

From an examination of the above-stated annual report, it has been found that the accounting policies checked below apparently have not been disclosed in the Summary of Significant Accounting Policies or in the Notes to the financial statement contrary to the recommendations of the Accounting Principles Board of the American Institute of Certified Public Accountant's Opinion Number 22, paragraph 8 and 13.

( ) Amortization of Intangibles

( ) Accounting for Research and Development Cost

( ) Translation of foreign currencies

Please give your honest and unreserved answers to this apparent divergency from the AICPA's recommendations for each of the above-checked items.

Kailas J. Rao

EXHIBIT 3

October 31, 1973

Gentlemen:

In April, 1972, the Accounting Principles Board of the American Institute of Certified Public Accountants issued Opinion Number 22, Disclosure of Accounting policies. The Board concluded that information about accounting policies by a reporting entity is essential for financial statement users. The Board further concluded that a description of all significant accounting policies of the reporting entity should be included as an integral part of the financial statements. Opinion 22 is effective for fiscal periods beginning after December 31, 1971.

As a part of my doctoral dissertation, I am surveying a random sample of Chartered Financial Analysts as to their opinion of the usefulness of disclosure of accounting policies in published financial statements.

The enclosed questionnaire has been designed so that you may quickly and easily respond. No names or professional affiliation will be identified in the results of my study and all the information furnished by you will be treated as strictly confidential.

Therefore, would you please take a few minutes now to complete and return the questionnaire in the enclosed, addressed, stamped envelope. Receiving your response within the next two weeks would allow me to complete my dissertation on schedule.

Sufficient responses to this questionnaire, from Chartered Financial Analysts such as yourself, may result in improved financial reporting.

Your prompt response would be most appreciated.

Sincerely yours,

Kailas J. Rao

Enclosure: Questionnaire

Questionnaire on Disclosure of Accounting Policies in Published Financial Statements

INSTRUCTIONS

Name: Your name is not to be placed on the questionnaire.

Present Employment: ( ) For a national firm ( ) A regional firm ( ) Local

Present Position: ( ) Partner ( ) Manager ( ) Analyst ( ) Other

Your Experience as an Analyst: ( ) 0-5 years ( ) 6-10 years ( ) over 10 years

PART I. General Statements Regarding Disclosure of Accounting Policies

For the following statements, please rate each item independently for its importance in investment decisions concerning buying, selling or holding equity shares and in the evaluation of management performance and efficiency of non-regulated publicly owned corporations whose stocks are listed and traded on a stock exchange. Circle the appropriate abbreviation that best describes your rating.
SA = STRONGLY AGREE; A = AGREE; U = UNDECIDED; D = DISAGREE; SD = STRONGLY DISAGREE

1. Disclosure of accounting policies in published financial statements provides the users with useful and relevant information for investment decisions. SA A U D SD

2. Assuming the disclosure of accounting policies was previously inadequate for evaluating investment decisions, APB 22 has overcome this deficiency. SA A U D SD

3. Accounting policies should be disclosed in unaudited interim financial statements. SA A U D SD

4. Disclosure of accounting policies enables the financial analyst to better evaluate management's performance and efficiency. SA A U D SD

5. Assuming that the information about accounting policies was previously made available to selected financial analysts, APB 22 requirements eliminate preferential practices. SA A U D SD

PART II. Disclosure of Specific Accounting Policies with Reference to Investment Decisions and Evaluation of Management's Efficiency

For the following specific items, please rate each independently for its significance in investment decisions and in evaluation of management performance and efficiency. Circle the abbreviation that best describes your rating.
E = ESSENTIAL; EU = EXTREMELY USEFUL; U = USEFUL; NP = NOT PARTICULARLY USEFUL; UN = UNNECESSARY

1. Accounting methods followed for each acquisition and merger completed during the year. E EU U NP UN

2. Description and number of shares of stock issued in a business combination. E EU U NP UN

3. Name and a brief description of the companies combined. E EU U NP UN

4. Details of the results of operations of the previously separate companies for the periods before the combination was made. The details should include revenue, extraordinary items, net income, changes in stockholders equity, and manner of accounting for intercompany transactions. E EU U NP UN

5. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment. E EU U NP UN

6. The amount of depreciation expense and the accumulated depreciation by major classes of depreciable assets. E EU U NP UN

7. Balance of major classes of depreciable assets by nature, or function at the balance sheet date. E EU U NP UN

8. A general description of the methods used in computing depreciation with respect to major classes of assets. E EU U NP UN

9. The estimated useful lives of major classes of depreciable assets. E EU U NP UN

10. The cost of intangible assets acquired in the current period. E EU U NP UN

11. The remaining useful lives of intangible assets. E EU U NP UN

12. The amount, method and the basis of amortization of intangible assets. E EU U NP UN

13. The amount of inventory and the methods used in its valuation. E EU U NP UN

14. Breakdown of inventory by major categories. E EU U NP UN

15. Accounting methods followed for research, and development cost. E EU U NP UN

16. Amount charged to research, and development cost in the current period. E EU U NP UN

17. The amount and the method of recognizing revenue in franchise business. E EU U NP UN

18. The amount and the method of recognizing revenue in long-term construction type contracts. E EU U NP UN

19. Rent payments or receipts on long-term leases. E EU U NP UN

20. Principal accounting methods used for reporting long-term leases. E EU U NP UN

21. Commitments or obligations incurred as a result of leasing plant or equipment. E EU U NP UN

22. Disclosure of pledges of leased property and leases as security for loans. E EU U NP UN

23. Terms, annual rentals, the period, and breakdown of long-term leases by the type of property leased (e.g., real estate, equipment). E EU U NP UN

24. The foreign exchange rates used to convert the balance sheet and income statements of foreign subsidiaries. E EU U NP UN

25. The accounting policy adopted with respect to unconsolidated domestic and foreign subsidiaries. E EU U NP UN

26. Amount of domestic and foreign subsidiaries earnings and parent company's share of their earnings. E EU U NP UN

27. Sales, expenses, income taxes and investment in domestic and foreign subsidiaries. E EU U NP UN

28. A statement as to the existence of a pension plan. E EU U NP UN

29. Accounting and funding policies of pension plans. E EU U NP UN

30. The amount of provision for pension cost for the current period. E EU U NP UN

31. The disclosure of significant unfunded past service liabilities. E EU U NP UN

32. Disclosure of the number and breakdown of the type of shares issued by the company. E EU U NP UN

33. Disclosure of the major shareholders of the company. E EU U NP UN

34. Terms of stock options as to the type and number of shares involved. E EU U NP UN

35. Earnings per share and the method used in their computations. E EU U NP UN

36. Description of dividend policy, and restrictions on dividends if any. E EU U NP UN

37. Amount of income tax expense. E EU U NP UN

38. Amount of deferred income tax liability or prepaid income tax, and reasons for their existence. E EU U NP UN

39. The amount of any investment tax credit or recapture of any investment tax credit and the accounting method used for its treatment. E EU U NP UN

40. A statement about the existence and the method of accounting for any profit sharing plans. E EU U NP UN

41. The disclosure of the nature and the method of treatment of purchase commitments. E EU U NP UN

42. The disclosure of the nature and the method of treating contingent liabilities. E EU U NP UN

43. Please list additional disclosures desired by you which were not listed above (use the reverse side of this page).

PART III. Format of Disclosure.

For the following statements, please rate each item independently for the format of disclosure of accounting policies in published financial statements. Please check the box that best describes your rating.

1. In your opinion the format of disclosure of accounting policies should be:
   ( ) Flexible as to matters of format.
   ( ) Standardized as to matters of format.

2. The disclosure of accounting policies should be presented in:
   ( ) A summary statement as an integral part of financial statements distinctively separate from footnotes following the financial statements.
   ( ) A summary statement as an integral part of financial statements preceding the financial statements.

3. Additional comments which you would like to make with regards to the format (use the back of this page, if necessary).

PART IV. Analyzing Financial Statements Using Alternate Accounting Methods.

In analyzing and comparing the financial statements of firms using alternate accounting methods, what procedures do you adopt in the following situations? (If more space is needed, use the reverse side of this page.)

1. INVENTORIES: One firm uses "LIFO" and the other uses "FIFO" for valuation of inventories:

2. DEPRECIATION: One firm uses "Straight Line" and the other uses "Accelerated" methods in computing depreciation expense:

3. RESEARCH AND DEVELOPMENT COST: One firm expense Research and Development cost and the other capitalizes and amortizes such costs:

4. PROCEDURES YOU ADOPT IN ANY OTHER SITUATION INVOLVING ALTERNATE ACCOUNTING PRACTICES:

EXHIBIT 4

November 30, 1973

Gentlemen:

I mailed a questionnaire to you on December 17, 1973. Since it appears that the questionnaire may not have been received or may have been misplaced, I am enclosing another copy for your consideration.

The attached questions are not intended to be of any criticism of the financial statement or the disclosure practices. I am merely attempting to secure the reasons why you are apparently not adhering to the Accounting Principles Board of the American Institute of Certified Public Accountants' Opinion Number 22. The results of the study may help the Financial Accounting Standards Board to determine the strengths and weaknesses of this Opinion.

Therefore, would you take a few minutes to complete and return the questionnaire in the enclosed, addressed, stamped envelope.

If you have already responded, please disregard this request.

Your prompt response is of vital importance to me.

Sincerely yours,

Kailas J. Rao

APPENDIX B

SUMMARY TABLES OF RESPONSES OF CHARTERED FINANCIAL ANALYSTS

List of Tables

TABLE 1

SUMMARY OF EVALUATION OF CFAs' RESPONSES TO SPECIFIC STATEMENTS

Part 2, Questionnaire Statement	U*		UN**	
	No.	%	No.	%
Total	79	100.0	79	100.0
1	77	97.5	2	2.5
2	79	100.0	--	--
3	76	96.2	3	3.8
4	76	96.2	3	3.8
5	76	96.2	3	3.8
6	73	92.4	6	7.6
7	69	87.3	10	12.7
8	74	93.7	5	6.3
9	65	82.3	14	17.7
10	70	88.6	9	11.4
11	61	77.2	18	22.8
12	68	86.0	11	14.0
13	77	97.5	2	2.5
14	67	84.8	12	15.2
15	75	94.9	4	5.1
16	72	91.1	7	8.9
17	73	92.4	6	7.6
18	76	96.2	3	3.8
19	71	89.9	8	10.1
20	74	93.7	5	6.3
21	72	91.1	7	8.9
22	65	82.3	14	17.7
23	61	77.2	18	22.8
24	65	82.3	14	17.7
25	69	87.3	10	12.7
26	76	96.2	3	3.8
27	74	93.7	5	6.3
28	70	88.6	9	11.4
29	69	87.3	10	12.7
30	68	86.0	11	14.0
31	75	94.9	4	5.1
32	75	94.9	4	5.1
33	62	78.4	17	21.6
34	72	91.1	7	8.9
35	79	100.0	--	--
36	72	91.1	7	8.9
37	75	94.9	4	5.1
38	75	94.9	4	5.1
39	76	96.2	3	3.8
40	69	87.3	10	12.7
41	71	89.9	8	10.1
42	71	89.9	8	10.1

*U = Useful **UN = Unnecessary

TABLE 2

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE GENERAL STATEMENTS BY THE TYPE OF FIRMS

Part 1, Questionnaire Statement	National Firms						Regional Firms						Local Firms					
	Agree		U*		Dis.**		Agree		U*		Dis.**		Agree		U*		Dis**	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Total	34	100.0	34	100.0	34	100.0	35	100.0	35	100.0	35	100.0	10	100.0	10	100.0	10	100.0
1	34	100.0	--	--	--	--	35	100.0	--	--	--	--	10	100.0	--	--	--	--
2	8	23.5	20	58.8	6	17.7	21	60.0	12	34.2	2	5.8	3	30.0	7	70.0	--	--
3	22	64.7	5	14.7	7	20.6	23	65.7	2	5.7	10	28.6	7	70.0	--	--	3	30.0
4	32	94.0	2	6.0	--	--	33	94.0	2	6.0	--	--	10	100.0	--	--	--	--
5	19	55.8	10	29.4	5	14.8	23	65.7	9	25.7	3	8.6	5	50.0	3	30.0	2	20.0

*U = Undecided

**Dis. = Disagree

TABLE 3

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO SPECIFIC STATEMENTS BY THE TYPE OF FIRM

Part 2, Questionnaire Statement	National Firms				Regional Firms				Local Firms			
	U*		UN **		U *		UN **		U *		UN **	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Total	34	100.0	34	100.0	35	100.0	35	100.0	10	100.0	10	100.0
1	34	100.0	--	--	33	94.2	2	5.8	10	100.0	--	--
2	34	100.0	--	--	35	100.0	--	--	10	100.0	--	--
3	32	94.1	2	5.9	34	97.1	1	2.9	10	100.0	--	--
4	34	100.0	--	--	33	94.2	2	5.8	9	90.0	1	10.0
5	34	100.0	--	--	32	91.4	3	8.6	10	100.0	--	--
6	32	94.1	2	5.9	31	88.5	4	11.5	10	100.0	--	--
7	30	88.2	4	11.8	33	94.2	2	5.8	8	80.0	2	20.0
8	33	97.0	1	3.0	32	91.4	3	8.6	9	90.0	1	10.0
9	30	88.2	4	11.8	32	91.4	3	8.6	8	80.0	2	20.0
10	32	94.1	2	5.9	29	82.8	6	17.2	9	90.0	1	10.0
11	30	88.2	4	11.8	26	74.2	9	25.8	6	60.0	4	40.0
12	33	97.0	1	3.0	30	85.7	5	14.3	6	60.0	4	40.0
13	34	100.0	--	--	35	100.0	--	--	9	90.0	1	10.0
14	31	91.1	3	8.9	29	82.8	6	17.2	10	100.0	--	--
15	32	94.1	2	5.9	34	97.1	1	2.9	9	90.0	1	10.0
16	33	97.0	1	3.0	32	91.4	3	8.6	7	70.0	3	30.0
17	32	94.1	2	5.9	30	85.7	5	14.3	10	100.0	--	--
18	33	97.0	1	3.0	33	94.2	2	5.8	10	100.0	--	--
19	33	97.0	1	3.0	28	80.0	7	20.0	10	100.0	--	--
20	33	97.0	1	3.0	30	85.7	5	14.3	10	100.0	--	--
21	31	91.1	3	8.9	31	88.5	4	11.5	10	100.0	--	--
22	28	82.3	6	17.7	30	85.7	5	14.3	8	80.0	2	20.0
23	27	79.4	7	20.6	27	77.1	8	22.9	8	80.0	2	20.0
24	30	88.2	4	11.8	27	77.1	8	22.9	9	90.0	1	10.0

TABLE 3 (Continued)

Part 2, Questionnaire Statement	National Firms				Regional Firms				Local Firms			
	U *		UN **		U *		UN **		U *		UN **	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
25	33	97.0	1	3.0	28	80.0	7	20.0	9	90.0	1	10.0
26	33	97.0	1	3.0	33	94.2	2	5.8	10	100.0	--	--
27	33	97.0	1	3.0	31	88.5	4	11.5	10	100.0	--	--
28	29	85.2	5	14.8	31	88.5	4	11.5	10	100.0	--	---
29	30	88.2	4	11.8	29	82.8	6	17.2	10	100.0	--	--
30	31	91.1	3	8.9	27	77.1	8	22.9	10	100.0	--	--
31	33	97.0	1	3.0	32	91.4	3	8.6	10	100.0	--	--
32	33	97.0	1	3.0	33	94.2	2	5.8	9	90.0	1	10.0
33	31	91.1	3	8.9	25	71.4	10	28.6	6	60.0	4	40.0
34	31	91.1	3	8.9	32	91.4	3	8.6	9	90.0	1	10.0
35	34	100.0	--	--	35	100.0	--	--	10	100.0	--	--
36	34	100.0	--	--	30	85.7	5	14.3	9	90.0	1	10.0
37	33	97.0	1	3.0	33	94.2	2	5.8	9	90.0	1	10.0
38	33	97.0	1	3.0	32	91.4	3	8.6	10	100.0	--	--
39	34	100.0	--	--	32	91.4	3	8.6	10	100.0	--	--
40	31	91.1	3	8.9	30	85.7	5	14.3	9	90.0	1	10.0
41	33	97.0	1	3.0	31	88.5	4	11.5	8	80.0	2	20.0
42	33	97.0	1	3.0	30	85.7	5	14.3	8	80.0	2	20.0

*U = Useful

**UN = Unnecessary

TABLE 4

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE FORMAT OF DISCLOSURES
(BY THE TYPE OF THE FIRM)

Part 3, Questionnaire Statement	National		Regional		Local	
	No.	%	No.	%	No.	%
Total	34	100.0	35	100.0	10	100.0
<u>Statement 1</u>						
(A) Flexible Format	21	61.7	23	65.7	2	20.0
(B) Standardized Format	13	38.3	12	34.3	8	80.0
<u>Statement 2</u>						
(A) Summary Statement Following Financial Statements	9	26.6	16	45.7	2	20.0
(B) Summary Statement Before the Financial Statements	25	73.4	19	54.3	8	100.0

TABLE 5

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE ALTERNATE ACCOUNTING METHODS (BY THE TYPE OF FIRMS)

Part IV, Questionnaire, Statement	National No.	Regional No.	Local No.
Total Responding to the Questionnaire	34	35	10
Total Responding to Part IV, Questionnaire	14	19	6
Depreciation: Statement No. 1			
1. Adjusting	13	19	5
2. Not Adjusting	1	--	1
Inventories: Statement No. 2			
1. Adjusting	13	19	5
2. Not Adjusting	1	--	1
Research and Development Costs: Statement No. 3			
1. Adjusting	13	19	5
2. Not Adjusting	1	--	1

TABLE 6

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE GENERAL STATEMENTS
(BY EMPLOYMENT STATUS)

Part 1, Questionnaire Statement	Partner						Manager					
	Agree		Undecided		Disagree		Agree		Undecided		Disagree	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Total	21	100.0	21	100.0	21	100.0	23	100.0	23	100.0	23	100.0
1	21	100.0	--	--	--	--	23	100.0	--	--	--	--
2	9	42.8	11	52.3	1	4.9	8	34.7	12	52.1	3	13.2
3	12	57.1	4	19.0	5	23.9	20	86.9	2	8.6	1	4.5
4	18	85.7	2	9.5	1	4.8	23	100.0	--	--	--	--
5	14	66.6	5	23.8	2	9.6	11	47.8	8	34.7	4	17.5

TABLE 6--Continued

Part 1, Questionnaire Statement	Analysts						Other					
	Agree		Undecided		Disagree		Agree		Undecided		Disagree	
	No.	%	No.	%%	No.	%	No.	%	No.	%	No.	%
Total	22	100.0	22	100.0	22	100.0	13	100.0	13	100.0	13	100.0
1	22	100.0	--	--	--	--	13	100.0	--	--	--	--
2	9	40.9	9	40.9	4	18.2	6	46.1	7	63.9	--	--
3	12	54.5	1	4.5	9	41.0	8	61.5	--	--	5	38.5
4	22	100.0	--	--	--	--	12	92.3	--	--	1	7.7
5	11	50.0	7	31.8	4	18.2	10	76.3	3	23.7	--	--

TABLE 7

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE SPECIFIC STATEMENTS (BY EMPLOYMENT STATUS)

Part 2, Questionnaire Statement	Partner				Manager				Analyst				Other			
	U*		UN**		U*		UN**		U*		UN**		U*		UN**	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Total	21	100.0	21	100.0	23	100.0	23	100.0	22	100.0	22	100.0	13	100.0	13	100.0
1	20	95.2	1	4.8	23	100.0	--	--	22	100.0	--	--	12	92.3	1	7.7
2	21	100.0	--	--	23	100.0	--	--	22	100.0	--	--	13	100.0	--	--
3	18	85.7	3	14.3	23	100.0	--	--	22	100.0	--	--	13	100.0	--	--
4	20	95.2	1	4.8	23	100.0	--	--	22	100.0	--	--	12	92.3	1	7.7
5	20	95.2	1	4.8	23	100.0	--	--	22	100.0	--	--	11	84.6	2	15.4
6	19	90.4	2	9.6	21	91.3	2	8.7	21	95.4	1	4.6	12	92.3	1	7.7
7	17	80.9	4	19.1	21	91.3	2	8.7	20	90.9	2	9.1	12	92.3	1	7.7
8	19	90.4	2	9.6	22	95.6	1	4.4	21	95.4	1	4.6	12	92.3	1	7.7
9	17	80.9	4	19.1	21	91.3	2	8.7	19	86.3	3	13.7	9	69.2	4	30.8
10	18	85.7	3	14.3	21	91.3	2	8.7	21	95.4	1	4.6	10	76.9	3	23.1
11	16	76.1	5	23.9	19	82.6	4	17.4	18	81.8	4	18.2	9	69.2	4	30.8
12	19	90.4	2	9.6	21	91.3	2	8.7	19	86.3	3	13.7	10	76.9	3	23.1
13	21	100.0	--	--	23	100.0	--	--	21	95.4	1	4.6	13	100.0	--	--
14	17	80.9	4	19.1	20	86.9	3	13.1	19	86.3	3	13.7	12	92.3	1	7.7
15	20	95.2	1	4.8	22	95.6	1	4.4	21	95.4	1	4.6	11	84.6	2	15.4
16	17	80.9	4	19.1	22	95.6	1	4.4	21	95.4	1	4.6	12	92.3	1	7.7
17	19	90.4	2	9.6	22	95.6	1	4.4	20	90.9	2	9.1	12	92.3	1	7.7
18	20	95.2	1	4.8	22	95.6	1	4.4	22	100.0	--	--	12	92.3	1	7.7
19	20	95.2	1	4.8	19	82.6	4	17.4	21	95.4	1	4.6	11	84.6	2	15.4
20	20	95.2	1	4.8	21	91.3	2	8.7	21	95.4	1	4.6	12	92.3	1	7.7
21	18	85.7	3	14.3	20	86.9	3	13.1	22	100.0	--	--	12	92.3	1	7.7
22	18	85.7	3	14.3	18	78.2	5	21.8	18	81.8	4	18.2	12	92.3	1	7.7
23	18	85.7	3	14.3	18	78.2	5	21.8	17	77.2	5	22.8	9	69.2	4	30.8
24	18	85.7	3	14.3	20	86.9	3	13.1	18	81.8	4	18.2	10	76.9	3	23.1

TABLE 7 (Continued)

Part 2, Questionnaire Statement	Partner				Manager				Analyst				Other			
	U *		UN **		U *		UN **		U *		UN **		U *		UN **	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
25	19	90.4	2	9.6	21	91.3	2	8.7	19	86.3	3	13.7	11	84.6	2	15.4
26	21	100.0	--	--	23	100.0	--	--	21	95.4	1	4.6	11	84.6	2	15.4
27	20	95.2	1	4.8	23	100.0	--	--	21	95.4	1	4.6	10	76.9	3	23.1
28	17	80.9	4	19.1	22	95.6	1	4.4	20	90.9	2	9.1	11	84.6	2	15.4
29	16	76.1	5	23.9	22	95.6	1	4.4	19	86.3	3	13.7	12	92.3	1	7.7
30	18	85.7	3	14.3	19	82.6	4	17.4	20	90.9	2	9.1	11	84.6	2	15.4
31	20	95.2	1	4.8	22	95.6	1	4.4	20	90.9	2	9.1	13	100.0	--	--
32	20	95.2	1	4.8	23	100.0	--	--	20	90.9	2	9.1	12	92.3	1	7.7
33	16	76.1	5	23.9	20	86.9	3	13.1	17	77.2	5	22.8	9	69.2	4	30.8
34	19	90.4	2	9.6	21	91.3	2	8.7	20	90.9	2	9.1	12	92.3	1	7.7
35	21	100.0	--	--	23	100.0	--	--	22	100.0	--	--	13	100.0	--	--
36	20	95.2	1	4.8	23	100.0	--	--	19	86.3	3	13.7	12	92.3	1	7.7
37	18	85.7	3	14.3	23	100.0	--	--	22	100.0	--	--	12	92.3	1	7.7
38	20	95.2	1	4.8	22	95.6	1	4.4	20	90.9	2	9.1	13	100.0	--	--
39	20	95.2	1	4.8	22	95.6	1	4.4	22	100.0	--	--	12	92.3	1	7.7
40	18	85.7	3	14.3	21	91.3	2	8.7	19	86.3	3	13.7	12	92.3	1	7.7
41	19	90.4	2	9.6	22	95.6	1	4.4	20	90.9	2	9.1	11	84.6	2	15.4
42	19	90.4	2	9.6	23	100.0	--	--	19	86.3	3	13.7	11	84.6	2	15.4

*U = Useful

**UN = Unnecessary

TABLE 8

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE FORMAT OF DISCLOSURES
(BY EMPLOYMENT STATUS)

Part 3, Questionnaire Statement	Partner		Manager		Analyst		Other	
	No.	%	No.	%	No.	%	No.	%
Total	21	100.0	23	100.0	22	100.0	13	100.0
Statement 1								
(A) Flexible Format	12	57.1	14	60.8	11	50.0	10	76.9
(B) Standardized Format	9	42.9	9	49.2	11	50.0	3	23.1
Statement 2								
(A) Summary Statement Following Financial Statements	7	33.3	7	30.4	8	36.3	5	38.6
(B) Summary Statement Before the Financial Statements	14	66.7	16	69.6	14	63.7	8	61.4

TABLE 9

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE ALTERNATE ACCOUNTING METHODS (BY EMPLOYMENT STATUS)

Part IV, Questionnaire Statement	Partner	Manager	Analyst	Other
	No.	No.	No.	No.
Total Responding to Questionnaire	21	23	22	13
Total Responding to Part IV, Questionnaire	10	11	13	5
Depreciation: Statement 1				
1. Adjusting	9	11	13	4
2. Not Adjusting	1	--	--	1
Inventories: Statement 2				
1. Adjusting	9	11	13	4
2. Not Adjusting	1	--	--	1
Research and Development Costs: Statement 3				
1. Adjusting	9	11	13	4
2. Not Adjusting	1	--	--	1

TABLE 10

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE GENERAL STATEMENTS (BY EXPERIENCE)

Part 1, Questionnaire Stmt	0-5 Years						6-10 Years						Over 10 Years					
	Agree		Undecided		Disagree		Agree		Undecided		Disagree		Agree		Undecided		Disagree	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Total	11	100.0	11	100.0	11	100.0	17	100.0	17	100.0	17	100.0	51	100.0	51	100.0	51	100.0
1	11	100.0	--	--	--	--	17	100.0	--	--	--	--	51	100.0	--	--	--	--
2	2	18.1	8	72.7	1	9.2	8	47.0	7	41.1	2	11.9	22	43.1	24	47.0	5	9.9
3	7	63.6	1	9.2	3	27.2	10	58.8	1	5.8	6	35.4	35	68.6	5	9.9	11	21.5
4	11	100.0	--	--	--	--	16	94.1	--	--	1	5.9	47	92.2	2	3.9	2	3.9
5	8	72.8	3	27.2	--	--	11	64.7	2	11.7	4	23.6	27	52.8	17	33.3	7	13.9

TABLE 11

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE SPECIFIC STATEMENTS (BY YEARS OF EXPERIENCE)

Part 2, Questionnaire Statement	0-5 Years				6-10 Years				Over 10 Years			
	U *		UN **		U *		UN **		U *		UN **	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Total	11	100.0	11	100.0	17	100.0	17	100.0	51	100.0	51	100.0
1	11	100.0	--	--	17	100.0	--	--	49	96.0	2	4.0
2	11	100.0	--	--	17	100.0	--	--	51	100.0	--	--
3	9	81.8	2	18.2	17	100.0	--	--	51	100.0	--	--
4	11	100.0	--	--	17	100.0	--	--	48	94.1	3	5.9
5	11	100.0	--	--	17	100.0	--	--	48	94.1	3	5.9
6	10	90.9	1	9.1	17	100.0	--	--	46	90.1	5	9.9
7	10	90.9	1	9.1	16	94.1	1	5.9	44	86.2	7	13.8
8	11	100.0	--	--	16	94.1	1	5.9	47	92.1	4	7.9
9	10	90.9	1	9.1	16	94.1	1	5.9	40	78.4	11	21.6
10	11	100.0	--	--	16	94.1	1	5.9	43	84.3	8	15.7
11	9	81.8	2	18.2	14	82.3	3	17.7	39	76.4	12	23.6
12	10	90.9	1	9.1	16	94.1	1	5.9	43	84.3	8	15.7
13	11	100.0	--	--	17	100.0	--	--	50	98.0	1	2.0
14	10	90.9	1	9.1	15	88.2	2	11.8	43	84.3	8	15.7
15	11	100.0	--	--	15	88.2	2	11.8	49	96.0	2	4.0
16	10	90.9	1	9.1	15	88.2	2	11.8	47	92.1	4	7.9
17	8	72.7	3	27.3	17	100.0	--	--	48	94.1	3	5.9
18	10	90.9	1	9.1	17	100.0	--	--	49	96.0	2	4.0
19	10	90.9	1	9.1	15	88.2	2	11.8	46	90.1	5	9.9
20	10	90.9	1	9.1	16	94.1	1	5.9	48	94.1	3	5.9
21	10	90.9	1	9.1	16	94.1	1	5.9	46	90.1	5	9.9
22	10	90.9	1	9.1	16	94.1	1	5.9	40	78.4	11	21.6
23	9	81.8	2	18.2	14	82.3	3	17.7	39	76.4	12	23.6
24	10	90.9	1	9.1	17	100.0	--	--	39	76.4	12	23.6

TABLE 11 (Continued)

Part 2, Questionnaire Statement	0-5 Years				6-10 Years				Over 10 Years			
	U *		UN **		U *		UN**		U *		UN **	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
25	10	90.9	1	9.1	17	100.0	--	--	43	84.3	8	15.7
26	10	90.9	1	9.1	16	94.1	1	5.9	50	98.0	1	2.0
27	10	90.9	1	9.1	16	94.1	1	5.9	48	94.1	3	5.9
28	8	72.7	3	27.3	16	94.1	1	5.9	46	90.1	5	9.9
29	10	90.9	1	9.1	17	100.0	--	--	45	88.2	6	11.8
30	9	81.8	2	18.2	15	88.2	2	11.8	44	86.2	7	13.8
31	9	81.8	2	18.2	17	100.0	--	--	49	96.0	2	4.0
32	11	100.0	--	--	16	94.1	1	5.9	48	94.1	3	5.9
33	9	81.8	2	18.2	14	82.3	3	17.7	39	76.4	12	23.6
34	11	100.0	--	--	17	100.0	--	--	44	86.2	7	13.8
35	11	100.0	--	--	17	100.0	--	--	51	100.0	--	--
36	9	81.8	2	18.2	17	100.0	--	--	47	92.1	4	7.9
37	10	90.9	1	9.1	17	100.0	--	--	48	94.1	3	5.9
38	8	72.7	3	27.3	17	100.0	--	--	50	98.0	1	2.0
39	11	100.0	--	--	17	100.0	--	--	49	96.0	2	4.0
40	8	72.7	3	27.3	16	94.1	1	5.9	46	90.1	5	9.9
41	11	100.0	--	--	16	94.1	1	5.9	45	88.2	6	11.8
42	10	90.9	1	9.1	16	94.1	1	5.9	46	90.1	5	9.9

*U = Useful

**U = Unnecessary

TABLE 12

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE FORMAT OF DISCLOSURES (BY YEARS EXPERIENCE)

Part 3, Questionnaire Statement	0-5 Years		6-10 Years		Over 10 Years	
	No.	%	No.	%	No.	%
Total	11	100.0	17	100.0	51	100.0
Statement 1						
(A) Flexible Format	7	63.6	10	58.8	29	56.8
(B) Standardized Format	4	37.4	7	41.2	22	43.2
Statement 2						
(A) Summary Statement Following Financial Statements	5	45.4	8	47.0	14	27.4
(B) Summary Statement Before Financial Statements	6	54.6	9	63.0	37	72.6

TABLE 13

SUMMARY OF EVALUATION OF CFAS' RESPONSES TO THE ALTERNATE ACCOUNTING METHODS (BY YEARS OF EXPERIENCE)

Part IV, Questionnaire Statement	0-5 Years No.	6-10 Years No.	Over 10 Years No.
Total Responding to Questionnaire	11	17	51
Total Responding to Part IV, Questionnaire	5	6	28
Depreciation: Statement 1			
1. Adjusting	4	6	27
2. Not Adjusting	1	--	1
Inventories: Statement 2			
1. Adjusting	4	6	27
2. Not Adjusting	1	--	1
Research and Development Costs: Statement 3			
1. Adjusting	4	6	27
2. Not Adjusting	1	--	1

APPENDIX C

ALPHABETICAL LISTING OF THE RANDOM SAMPLE OF THE 120 CORPORATIONS SELECTED FOR THE ANALYSIS OF COMPLIANCE WITH APB 22

ACF Industries

Airco, Inc.

Allied Chemical Corporation

Aluminum Company of America

Amco-Pittsburg Corporation

American Seating

American Cement Corporation

American Brands, Inc.

American Chain & Cable Company, Inc.

Anheuser-Busch, Inc.

Arrow Hart

Armstrong Cork Company

Atlantic Steel Company

Beatrice Foods Co.

Bird & Sons, Inc.

Bell & Howell

Bemis Company, Inc.

Block Drug Company, Inc.

Booth Newspaper, Inc.

Brown-Foreman Distillers Corporation

Brunswick Corporation

Bucyrus-Erie Company

Carborundum Company

Cannon Mills Company

Ceco Corporation

Champion Spark Plug Company

Chase Bag Co.

Chemetron Corporation

Chicago Pneumatic Tool Company

Clark Equipment Company

Clark Oil & Refining Corporation

Collins & Aikman Corporation

Continental Oil Company

Coleman Company, Inc.

Crown Central Petroleum Corporation

Crown Zellerbach

Cyclops Corporation

Dan River, Inc.

Dibrell Brothers Incorporated

Doric Corporation

Eastern Gas & Fuel Associates

EG&G, Inc.

Fairchild Industries

Fischer & Porter Co.

Fibreboard

Flintkote Company

F&M Schaefer Corporation

Foot Mineral Company

Ford Motor Company

Foster Wheeler Corporation

Freeport Minerals Company

Fuqua Industries, Inc.

Gannett Co., Inc.

General Mills, Inc.

General Refractories Company

General Battery Corporation

General Steel Industries, Inc.

Hanes Corporation

Helme Products, Inc.

Hershey Foods Corporation

Ideal Toy Corporation

Illinois Central Industries, Inc.

Inmont Corporation

International Paper Company

Indian Head

Joslyn Mfg. and Supply Co.

Jos-Schlitz Brewing Company
Kerr-McGee Corporation
Eastman Kodak Company
Laclede Steel Company
Lance, Inc.
Louisiana Land & Exploration Company
Lukens Steel Company
Mansfield Tire & Rubber Company
C.H. Masland & Sons
McDonough Co.
McGraw-Edison Company
McNeil Corporation
MSL Industries, Inc.
Multifoods
Nalco Chemical Company
National Chemsearch Corporation
Noxell Corporation
Nucor Corporation
Mobil Oil Corporation
Oxford Industries, Inc.
Pantasote Company
Parker Pen Company
Pacific Lumber Company
Pepsico, Inc.
Potlatch Forests, Inc.
Polaroid Corporation
PPG Industries
Publicker Industries, Inc.
Pullman Incorporated
Raytheon Company
Rapid American Corporation
R.J. Reynolds Tobacco Company
Robert Shaw
Ross Industries, Inc.
Schering-Plough Corporation
Singer Company
Snap-On Tools Corporation
Standard Oil Company (Indiana)
Stratford of Texas, Inc.
Susquehanna Corporation
Sunbeam Corporation
Swank
Tekronix
Texas Instruments Incorporated
Timken Company
TRW, Inc.
Uniroyal, Inc.
Vulcan Materials Company
Weil-McLain Company, Inc.
Western Electric
Whirlpool Corporation
Wometco Enterprises
Work Wear Corporation
Zurn Industries, Inc.