

AMERICAN INSTITUTE OF ACCOUNTANTS

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For release on receipt:

John L. Carey, Secretary.

In recommendations filed with the Senate Banking and Currency Committee by the American Institute of Accountants during consideration of the National Securities Exchange Bill, it is strongly urged that those provisions calling for annual reports of corporations be amended to require that the reports be filed as of a date marking the end of the natural business year of the company concerned.

A brief stating, among other things, the advantages to an industry of the adoption of a fiscal year natural to its own business cycle, as opposed to that ending arbitrarily as of December 31st, says:

“We approve the requirement of at least one report each year certified by independent public accountants. This is in accord with what is commonly regarded as good practice.

“It is preferable that the certified report be rendered as of a date marking the end of the natural business year of the company concerned (which is not necessarily December 31st) i. e., the date most closely coinciding with the termination of the annual business cycle, which is also usually the date at which inventories are at their minimum. The work of the regulatory body would be facilitated by spreading the closing dates of various industries in accord with their natural fiscal periods, and resulting financial statements would be more valuable for comparative purposes. It is suggested that there be inserted in Section 12(a)(2) a provision making it clear

that annual reports are to be filed as of the date marking the end of the natural business year of the company concerned.”

George O. May, of New York, a member of the American Institute of Accountants and a partner of the firm of Price, Waterhouse & Co., appeared as an individual before the committee and offered the following recommendations relating to the adoption of a natural business year:

“Make the provision regarding certified statements sufficiently flexible to permit of the distribution of the auditing required so far as possible over the year in such way as may be most desirable in the general interest.

“The most serious problem which the auditors of the accounts of listed corporations have to face is that audits are required at the close of the fiscal year, and that the great majority of corporations end their fiscal year with the calendar year, with the result that there is an enormous congestion of work in a few months. The existence of this condition adds to the cost and detracts from the efficiency of audits, and it could easily be avoided by a simple provision such as I have proposed.

“In many industries, December 31 is a most unnatural time for closing the accounts. In a few instances, this fact has been recognized and another closing date has been selected -- thus the packing houses generally close their accounts at the end of October. But assumed convenience in income tax affairs and similar considerations have led many corporations to adopt the calendar year as their fiscal year, although accounts for a period ending at some other date would be more informative. The natural closing date for automobile and tire companies would be September 30 or October 31. Formerly all the railroads closed their accounts at June 30. A discretionary provision such as I have suggested would admit of the work

of auditing being distributed more equally over the entire year, thus not only reducing the cost and increasing the efficiency of audits, but contributing to the convenience of the exchanges and regulating bodies, and others who are called upon to scrutinize audited accounts when issued. I recognize that in the past audits of corporations other than financial institutions have usually been made at the close of the calendar year, but any inconvenience that might result from a change in this respect would be trivial in comparison with the advantages to be derived from a better distribution of the work of auditing over the entire year.”