

**AMERICAN INSTITUTE OF ACCOUNTANTS**  
13 EAST 41ST STREET, NEW YORK 17, N. Y.

A D V A N C E

FOR RELEASE: MONDAY, OCTOBER 25

Corporation annual reports should provide supplementary information to show the necessity for retaining out of profits amounts sufficient to replace productive facilities at current prices, it is said in a statement issued by the Committee on Accounting Procedure of the American Institute of Accountants made public yesterday (SUN).

At the same time, the committee announced its conclusion that a change in generally accepted accounting treatment of depreciation charges would not be desirable or practicable at the present time.

In making public the committee statement on depreciation and high costs, Chairman Samuel J. Broad said that the recommendations resulted from more than a year of study, including a special inquiry designed to test informed opinion on depreciation policy among business executives, economists and other financial experts.

“A substantial majority” said Mr. Broad, “agreed with the committee conclusion that a basic change in accounting procedures was not the right answer to the problem under present conditions. But a majority also felt, as does the committee, that business management must explain to employees and the public why high current prices of plant and facilities make it necessary for corporations to retain and reinvest a substantial proportion of net income in order to maintain assets at the same level of productivity at the end of the year as at the beginning.”

The committee’s position was stated in a letter to American Institute members, the text of which follows:

“The American Institute of Accountants’ Committee on Accounting Procedure has reached the conclusion that no basic change in the accounting treatment of depreciation of plant and equipment is practicable or desirable under present conditions to meet the problem created by the decline in the purchasing power of the dollar.

“The Committee has given intensive study to this problem and has examined and discussed various suggestions which have been made to meet it. It has solicited and considered hundreds of opinions on this subject expressed by businessmen, bankers, economists, labor leaders and others. While there are differences of opinion, the prevailing sentiment in these groups is against any basic change in present accounting procedures. The committee believes that such a change would confuse readers of financial statements and nullify many of the gains that have been made toward clearer presentation of corporate finances.

“Should inflation proceed so far that original dollar costs lose their practical significance, it might become necessary to restate all assets in terms of the depreciated currency, as has been done in some countries. But it does not seem to the committee that such action should be recommended now if financial statements are to have maximum usefulness to the greatest number of users.

“The committee, therefore, reaffirms the opinion it expressed in Accounting Research Bulletin No. 33, December 1947. (\*)

“Any basic change in the accounting treatment of depreciation should await further study of the nature and concept of business income.

“The immediate problem can and should be met by financial management. The committee recognizes that the common forms of financial statements may permit misunderstanding as to the amount which a corporation has available for distribution in the form

of dividends, higher wages, or lower prices for the company's products. When prices have risen appreciably since original investments in plant and facilities were made, a substantial proportion of net income as currently reported must be reinvested in the business in order to maintain assets at the same level of productivity at the end of a year as at the beginning.

“Stockholders, employees, and the general public should be informed that a business must be able to retain out of profits amounts sufficient to replace productive facilities at current prices if it is to stay in business. The committee therefore gives its full support to the use of supplementary financial schedules, explanations or footnotes by which management may explain the need for retention of earnings.

“Four of the twenty-one members of the committee, Messrs. Broad, Paton, Peloubet and Wellington, dissented from the conclusion that no basic change in the accounting treatment of depreciation of plant and equipment is practicable or desirable under present conditions. They believe further that inflation has proceeded to a point where original dollar costs have already lost their practical significance and that where depreciation is an important element of cost the advantages which would result from a basic change in accounting treatment outweigh the possible disadvantages which have been advanced against it.

For the

COMMITTEE ON ACCOUNTING PROCEDURE

By SAMUEL J. BROAD

Chairman.”

(Note to Editor: The members of the Committee on Accounting Procedure issuing the statement on depreciation and high costs- Samuel J. Broad, New York, chairman; John N. Aitken, Philadelphia; William H. Bell, New York; H. L. Dalton, Toledo; Thomas M. Dickerson, Cleveland; James L. Dohr, New York; Fred J. Duncombe, Chicago; J. P. Friedman, New York; Anson Herrick, San Francisco; Thomas G. Higgins, New York; David Himmelblau, Chicago; John B. Inglis, Paul K. Knight, John A. Lindquist, all New York; Edward J. McDevitt, Boston;

-4-Accountants

William A. Paton, Ann Arbor, Michigan; Maurice E. Peloubet and Walter L. Schaffer, New York; Maurice H. Stans, Chicago; Virgil S. Tilly, Tulsa, Oklahoma, and C. Oliver Wellington, New York).

---

(\*) Copy of Accounting Research Bulletin No. 33 accompanies this information to editors.

#