

**AMERICAN INSTITUTE OF ACCOUNTANTS**  
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SEC CHIEF ACCOUNTANT NOTES IMPROVEMENTS IN FINANCIAL REPORTS

New York, July 7 – Financial reports are becoming less and less “guessing games” for investors, according to Earle C. King, chief accountant for the Securities and Exchange Commission, in an article in the July issue of The Journal of Accountancy, published today.

He bases his conclusion on a study of representative 1948 reports to stockholders filed with the Commission.

Though a few companies still seem “to apply the rule advocated for prisoners of war --- give only your name, rank and serial number,” Mr. King reports that substantial progress has been made.

The improvements include the increasing use of comparative figures showing results of two or more years, more informative methods of handling income and surplus for various purposes, better forms of profit-and-loss statements, and the adoption of charts and other pictorial devices for clarify and readability.

Mr. King finds that the term “reserve” is being clarified more often than in the past and that new terminology is being substituted for the confusing word “surplus.” Of the 92 reports examined, those for 25 firms showed “Earnings Retained in the Business” or similar language, in lieu of earned surplus, and eight others showed the term as a parenthetical alternative. In 33 of

the cases the term “reserve” was not used in the balance-sheet in connection with doubtful accounts and depreciation.

“I was interested,” he continues, “in noting the extent to which prepaid expenses were included in current assets. This procedure was recommended unanimously by the 21 members of the American Institute of Accountants’ committee on accounting procedure in Research Bulletin No. 30 in August 1947.”

Mr. King indicates that consideration is being given to the specific inclusion in Regulation S-X (the SEC rules on accounting) of this and other pronouncements of the American Institute of Accountants -- regarding surplus, reserves, and pre-paid expenses.

He also invites comments on whether the Statement of Application of Funds should be incorporated in SEC requirements. “This form of statement,” he says, “was considered during the formative stages of Regulation S-X but considerable difficulty was encountered in designing a form, acceptable to all of the collaborators, that was felt could be prepared by all companies with a reasonable expenditure of effort commensurate with the benefits anticipated.”

“From a critical professional point of view,” Mr. King concludes, “nearly all of the reviewed statements suffer to some extent from a lack of precision in the use of terms -- due, it appears, to experimentation in developing the form to appeal to the lay reader. For example, one two-year comparative form is called an ‘Informal Funds Statement’ and labels the two parts ‘Source of Cash’ and ‘Use for Cash.’ The use of quotes on the titles appears to indicate a technical reservation, and properly so, I think, for I am somewhat doubtful that ‘Reserved for Depreciation’ is a source of cash or that the balancing item ‘Added to Working Capital’ is

entirely comprised of cash. This example merely demonstrates the difficulty in reconciling technically correct use of terms with a simplified presentation.

NOTE TO EDITORS: Mr. King's article appears on pp. 50-57 of the enclosed copy of The Journal of Accountancy, monthly publication of the American Institute of Accountants, the national professional society of certified public accountants.