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Stephen A. Zeff
RICE UNIVERSITY

ACCOUNTING TEXTBOOKS AS CHANGE AGENTS: FINNEY'S *INTERMEDIATE* AND FINNEY AND MILLER'S *INTERMEDIATE* FROM 1934 TO 1958[1]

Abstract: This paper undertakes to illustrate how the two leading intermediate accounting textbooks published between the 1930s and 1950s, by Finney and Finney/Miller, regularly critiqued recommended and accepted practice, and proposed innovations, while the tendency in today's textbooks is solely to describe and codify standards and practice and therefore not to stimulate students' and instructors' critical thinking. The author recommends that today's textbook authors should emulate Finney and Finney/Miller.

INTRODUCTION

Today's intermediate accounting textbooks, which are staples in U.S. accounting degree programs, with few exceptions provide neutral expositions of accounting standards and practice. Their authors typically do not undertake to critique them or to propose improvements in measurements, formats, or disclosures. Yet this has not always been the attitude of the authors of U.S. intermediate accounting textbooks. During the first sixty years of the past century, the authors of some leading textbooks often criticized pronouncements and practice, and recommended improvements. At the least, they discussed the arguments for and against alternative practices at some length.

It has already been pointed out in the literature that such leading academics as William Morse Cole, Henry Rand Hatfield, and William A. Paton were innovative or were seen to sit in

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judgment on practice in their textbooks, and thus went beyond a vanilla exposition of extant accounting practice. Cole, in his textbook, *Accounts, Their Construction and Interpretation*, published in 1908, pioneered in proposing a kind of funds statement [Cole, 1908, p. 101]. Funds statements did not become a required financial statement until the Accounting Principles Board (APB) issued Opinion 19 in 1971, more than 60 years later. Hatfield, in his textbook, *Accounting: Its Principles and Problems*, published in 1927, was the first to suggest imputing goodwill to the minority interest in consolidated financial statements [Hatfield, 1927, pp. 446-448], a procedure which did not become required until 80 years later in SFAS 160, issued in 2007. In the same textbook, Hatfield also severely criticized the use of "cost or market whichever is lower" for merchandise inventories [1927, p. 99]. Paton, in his series of textbooks from 1916 to 1955, recommended the use of current cost accounting and eventually general price-level accounting [Zeff, 1979a], neither of which, even to this day, have ever become required practice in the financial statements for all publicly traded companies, chiefly, it seems, because of opposition from the Securities and Exchange Commission (SEC) [Zeff, 2007].

The objective of this paper is to examine the intermediate accounting textbooks written by Harry A. Finney, a professor of accounting at Northwestern University and also a partner in an accounting firm, which were published in 1934 and 1946, and the further two editions of the intermediate textbook which he coauthored with Herbert E. Miller, a professor of accounting at the University of Michigan, in 1951 and 1958.[2] They were all published by Prentice-Hall, Inc. Both Finney and Miller were inducted into the Accounting Hall of Fame at The Ohio State University (in 1958 and 1982, respectively), and a major reason for their candidacy was surely their well-known line of introductory, intermediate, and advanced accounting textbooks, which were the most widely adopted series of financial accounting textbooks from the 1930s to the 1950s. A reviewer of the 1946 edition of intermediate accounting wrote that "the text retains that force and authoritativeness which has long made Mr. Finney's books

[2] Finney and Miller's next revision, published in 1965, is omitted because it was, for the most part, a faithful successor of the 1958 edition. Furthermore, it is believed that a comparison across five editions over 31 years, instead of four over 24 years, would excessively burden the paper without yielding new insights.

Not all of the textbooks from the 1930s to the 1950s at the intermediate level, i.e., the level of study immediately succeeding the introductory financial accounting textbook, carried the name "intermediate," as will be seen.

'standards' in the field of accounting literature" [Beights, 1947]. These four editions of Prentice-Hall's intermediate accounting textbook constitute an interesting case study of authors who sought to have an influence on accounting practice as well as instill a critical faculty in its readers, mostly undergraduate students and their teachers.

In addition to reviewing the four editions written by Finney [1934, 1946] and by Finney and Miller [1951, 1958], the author will refer to other textbooks in this time period that did, or did not, adopt this innovative and critical approach to presenting the material.

As the American Institute of Accountants' (AIA) Committee on Accounting Procedure did not begin issuing pronouncements on proper accounting practice until 1939, and a number of its Accounting Research Bulletins through 1959 admitted of optional approaches, it fell to textbook authors either (1) to recite the available options without evaluative comment or (2) actually to state a preference for one of the options, and why, or, at the least, discuss the contending views at some length. Finney, and Finney and Miller, clearly chose the second approach.

In the balance of the paper, the author selects a half-dozen major controversial areas of accounting practice where Finney, and Finney and Miller, stated what they regarded as proper practice across the four editions of their intermediate accounting textbook, and at the same time laid out the pros and cons at length to provide readers with criteria for making their own informed decision about what constitutes best practice. These half-dozen issues were either areas of discordant practice or were bones of contention between the Committee on Accounting Procedure and the SEC.

HALF-DOZEN MAJOR ACCOUNTING CONTROVERSIES FROM THE 1930s TO THE 1950s

Classification of treasury stock: A debated question from the 1930s onward was whether the acquisition by a corporation of its own shares of stock, namely treasury stock, gave rise to an asset or to a contra-equity. In 1934, Finney wrote that it was "fallacious" for officials of a corporation that acquired treasury stock with the intention of reissuing it to believe that "the corporation has acquired an asset as truly as if it had purchased the stock of another corporation" [p. 88]. He said that treasury stock should be deducted from capital stock in the balance sheet. In the same year, 1934, a blue-ribbon AIA committee, chaired by the redoubtable George O. May, declared, with some equivocation, in a statement setting forth certain accounting principles which was shortly to be adopted by the AIA's Council and would be reproduced in Accounting Research Bulletin (ARB) No. 1 in 1939: "While it is perhaps in some circumstances permissible to show stock of a corporation held in its own treasury as an asset if adequately disclosed, the dividends on stock so held should not be treated as a credit to the income statement of the company" [*Audits of Corporate Accounts*, 1934, p. 24]. Finney had taken a much stronger position than had the AIA committee. In 1946, Finney was moved to express a more categorical position: "Treasury stock should not be shown in a company's balance sheet as an asset under any conditions" [p. 138]. To be sure, the SEC, in a revision of *Regulation S-X* in 1944, had declared that treasury stock should not be shown as an asset,[3] yet 11 of the 234 companies displaying treasury stock still classified it as an asset among the 525 companies surveyed in *Accounting Trends & Techniques* for 1946/47 [p. 81].[4] In his 1947 book, *Annual Reports to Stockholders*, N. Loyall McLaren wrote that public accountants have adopted a "less extreme position" than the SEC, and allow treasury stock held "temporarily for a special purpose" to be shown as an asset, but not as a current asset [p. 78]. So, Finney's strong position in 1946 against showing treasury stock as an asset was hardly a universally accepted view.

Finney and Miller, in their 1951 edition, repeated, but rather less forcefully, the view that treasury stock should not be classified as an asset [pp. 282-283], a view which they tempered "[as] a general rule" in their 1958 edition [p. 146]. Clearly, over the course of the four editions, it was Finney who took the stronger stand back in 1946. Apparently, Miller was less certain in his view.

Some other authors of intermediate textbooks commented on the classification of treasury stock as an asset. Kester seemed to change his mind between his 1933 and 1946 editions. In 1933,

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[3] It was not until 1964 that the SEC revised its Rule 14a-3 under the Securities Exchange Act of 1934 to require that companies soliciting proxies must conform their annual financial statements sent to shareholders with their 10-K report to the Commission, or disclose in the former any such material difference. Previously, the SEC did not take formal cognizance of companies' annual financial statements sent to shareholders.

[4] One of the 11 companies was General Motors Corporation, which showed treasury stock "Held for bonus purposes" on the asset side of its consolidated balance sheets dated December 31, 1945 and 1946. General Motors adhered to this practice of classifying treasury stock as an asset until 1986.

after arguing against classifying treasury stock as Temporary Investments, he conceded that it could "without any serious impropriety" be so classified if the holdings were "small and insignificant" [p. 182]. But in 1946 he concluded categorically that "there is little if any sound basis for its inclusion among the assets" [p. 234]. Paton, in his *Corporation Accounts and Statements* [1955], which, together with his *Asset Accounting* [1952], were also innovative and critical textbooks,[5] reflecting a strong economics influence, pronounced that showing treasury stock as an asset was "a presentation for which there is no defense" [p. 423]. In their 1963 edition of intermediate accounting, Meigs, Johnson and Keller wrote, "The reasons for refusing to recognize treasury stock as an asset are many and generally recognized as valid, yet the issue is kept alive by the policy of a few prominent corporations which persist in listing treasury stock among their assets" [p. 716]. Moonitz and Jordan's textbook, published in 1964, said that the "exclusion of treasury shares from the asset list is now widely recognized as proper" [p. 194]. The authors of both of these latter textbooks cited what others think, apparently with approval, but did not themselves come out against classifying treasury stock as an asset.

As late as 1973, it was said that "AICPA pronouncements permit 'in some circumstances' including as an asset the cost of treasury shares held" [Melcher, 1973, p. 91].

The funds statement: Apparently only a few companies published a funds statement in the 1930s [Daniels, 1939, p. 73].[6] Yet, in his 1934 edition, Finney devoted a 19-page chapter to showing how to prepare a "Statement of Application of Funds" [pp. 497-515], although he did not actually argue that such a statement should be presented jointly with the balance sheet and income statement. In 1946, his treatment of how to prepare a funds statement expanded to 30 pages [pp. 577-606], and when Miller joined him in 1951 the coverage of the funds statement ran to 39 pages [pp. 615-653], followed by 35 pages in the 1958 edition [pp. 512-546]. But they were not alone in illustrating at some

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[5] On both books, William A. Paton, Jr., the senior Paton's son, was shown as rendering assistance. William A. Paton, Jr., known as Andy, has advised the author that his father did all of the writing. He said that he, Andy, read the proofs. Author's telephone conversation with William A. Paton, Jr., August 28, 2015.

[6] As early as 1928, United States Steel Corporation, which was known for its progressive financial reporting, published a funds statement [Paton, 1933, p. 98]. In a later study, it was reported that only six of 64 selected companies presented a funds statement in their 1945 reports [McLaren, 1947, p. 290].

length how to prepare a funds statement: as early as the 1940s, several other textbook authors [e.g., Paton, 1941, chap. 30; Kester, 1946, pp. 660-675; Newlove, Smith and White, 1948, chaps. 21, 22; and Karrenbrock and Simons, 1949, chap. 19] were also instructing readers on the subject. In their 1958 edition, Finney and Miller also included a 25-page chapter on how to prepare a cash-flow statement [pp. 547-571]. Such a chapter was a novelty in textbooks at that time.[7] In their preface, they wrote, "Business managements have shown an increasing interest in the sources of uses of cash, and problems requiring the preparation of cash-flow statements have appeared in recent C.P.A. examinations" [1958, p. vi].

Thus, all four of their editions contained sizable chapters on how to prepare a funds statement. Yet it was not until 1963, when the APB, in Opinion 3, recommended but did not require presentation of a funds statement, and the APB said was optional whether the statement was to be covered by the auditor's opinion. After considerable pressure from the New York Stock Exchange and the SEC, the APB, in Opinion 19 issued in 1971, finally mandated the presentation and audit of a funds statement [Zeff, 2015]. The Finney and Finney/Miller textbooks gave credence to the funds statement, and thus encouraged students to take it seriously, decades before the standard setter made it a basic financial statement. Moreover, Finney and Miller's chapter on cash-flow statements in 1958 may have contributed, if only in a small way, to hastening the day when the FASB, eventually in 1987 with SFAS 95, replaced the funds statement with a cash-flow statement.

General price-level accounting: An innovation likely attributable to Miller, as explained below, in the coauthors' 1958 edition was inclusion of an 18-page chapter entitled "Price-Level Impact on Financial Statements" [pp. 623-640]. In their preface to the book, the authors explained the reason for adding this chapter, as follows:

> In the last decade this broad question has received more controversial attention than any other accounting topic. While the accounting profession has not crystallized a position on this matter, no college student should complete his school training without an exposure to the problems that business management and

[7] Two years later, Milroy and Walden [1960, pp. 621-635] discussed three concepts of funds (cash, working capital, and net monetary assets) in a 15-page chapter on funds statements in their intermediate book.

> the accountant face as the result of significant changes in the purchasing power of the dollar, the proposals offered for dealing with these problems, and the arguments in favor of and against these proposals. [p. vii]

In the chapter – the last in the book – they cited the doubling of the price level of consumer goods between 1940 and 1957 as a concrete reason for treating this issue [p. 623]. Unusual for a textbook, the chapter devoted fully 6½ pages to reciting the arguments for and against general price-level (GPL) accounting, and the authors showed how to adjust sales and depreciation for changes in the price level. This was certainly not an issue on which the SEC's accounting staff wanted to see any movement: it favored un-restated historical cost, and it had beat back every attempt by the Committee on Accounting Procedure in the 1940s and 1950s to recommend use of current cost or general price-level adjustments in the body of the financial statements [Zeff, 2007]. The American Accounting Association (AAA), in which Miller had been active since the 1940s and had become a vice-president in 1957, published three monographs on the theory and methodology of GPL accounting, and on case studies of four companies whose financial statements were restated by the use of GPL indices [Jones, 1955; Mason, 1956; Jones, 1956]. In the chapter, the authors reproduced the 1941-51 statements of earnings, both in historical dollars and "uniform" (i.e., GPL-adjusted) dollars, of Armstrong Cork Company (one of the four companies), and the authors drew attention to the significant differences between the results in the two sets of statements [pp. 633-635]. They also referred to the 1956 annual report of Indiana Telephone Company, in which its financial statements were shown in two columns, one according to conventional accounting and the second according to inflation-adjusted dollars [pp. 637-638]. They quoted at length from the report of a AAA committee which, in 1951, encouraged company managements to "include in periodic reports to stockholders comprehensive supplementary statements which present the effects of the fluctuation in the value of the dollar upon net income and upon financial position" [p. 639].[8]

Another influence on Miller may well have been William Paton, his senior colleague at the University of Michigan. In Paton's *Advanced Accounting*, published in 1941, he had devoted a lengthy chapter to "common-dollar reporting," building on

[8] For the committee's report, see Committee on Concepts and Standards Underlying Corporate Financial Statements [1951].

the work of Henry W. Sweeney, whose *Stabilized Accounting* published in 1936 and his numerous articles published between 1927 and 1936 made a strong case for the use of GPL accounting. In the 1940s and 1950s, Paton continued to advocate GPL accounting in articles and speeches, in his textbooks, and as a longtime member (1939-50) of the Committee on Accounting Procedure. Paton's *Asset Accounting*, published in 1952, discussed "Changing Prices and Depreciation Cost," replete with his own views, in a 20-page chapter [chap. 14].

Apart from Paton, Finney and Miller were the only accounting textbook authors to accord significant attention to GPL accounting prior to the 1970s, when a rising inflation rate became a serious national concern and the FASB issued an exposure draft entitled "Financial Reporting in Units of General Purchasing Power" in 1974.

In their 1951 edition, Finney and Miller had discussed "economic income versus monetary income" in one of the chapters on tangible fixed assets, in the context of adjusting the depreciation charge for inflation [pp. 479-484].

Here was a clear instance in which the authors declared their position on a controversial issue in financial reporting, and sought to sensitize students, and faculty members as well, to the urgency of reforming the package of financial statements to take explicit account of inflation. This was not a subject that was tested on the Uniform CPA Examination.

Appraisals of tangible fixed assets and subsequent depreciation: An eternal issue in accounting has been whether tangible fixed assets may be revalued upward and, if so, whether the subsequent depreciation should be based on new valuation or on the historical cost. Finney, in his 1934 edition, said that "accountants now agree that it is proper to record appraisals" so long as the credit is to a "Reserve for Unrealized Increment per Appraisal instead of to Surplus" [p. 292]. While conceding that there was a difference of opinion among accountants over how to provide for the subsequent depreciation, Finney said he sided with those who would base future depreciation on the actual cost, not on the replacement cost [p. 293]. He presented eight pages of discussion the matter.

In his 1946 edition, Finney reported that the Committee on Accounting Procedure had ruled (in ARB No. 5 in 1940) that "fixed assets should normally be carried in the accounts at cost, and that any other basis of valuation is 'impracticable and inexpedient'" [p. 351]. He wrote that the Committee added that, if a corporation nevertheless were to record the appreciation, subsequent depreciation should be based on the appraised value rather than the actual cost [p. 352]. Finney reminded the reader that "[t]he Committee is clothed with no authority to impose its opinions on the profession, and [that] the current literature published since the issuance of the Committee's bulletin has expressed both agreement and disagreement with the pronouncement" [p. 353]. He acknowledged that "[t]here is much to be said in support of the Committee's pronouncement, and it is line with two recent trends of major importance in the theory and practice of accounting: a tendency to give increasing consideration to the income statement, and an emphasis on accounting consistency" [p. 352]. Yet, recalling his 1934 position on the subsequent recording of depreciation, he noted somewhat sarcastically that the Committee seems to be saying that, "if a company is wrong in its balance sheet it should be wrong in its income statement also" [p. 352]. In a section new to this edition, Finney observed that the "depreciation on replacement cost theory has also has been advocated on the ground that it tends to compensate for the fluctuating value of the dollar" [p. 337]. He thereupon dismissed as impracticable giving recognition to the changing purchasing power of the dollar and, moreover, said it is a based on a premise that "has never been accepted by accountants" [p. 337]. As can be seen in the section on GPL accounting (above), Finney modified his view by 1958.

In 1947, during the high post-war inflation, the Committee on Accounting Procedure issued ARB No. 33, in which it restated its view that depreciation should be based on historical cost, not on appraised values. But the Committee added that, if a company were to undertake "the serious step of formally recording appraised current values for all properties," the depreciation charge could be based on the revaluation. The Committee was aware that it could not compel compliance with its recommendations; hence, where a company went so far as to book a higher appraisal, the Committee felt that it could not oppose basing subsequent depreciation charges on the appreciation. This concession may well have masked a division of opinion within the Committee.

On October 14, 1948, because of the growing controversy in the profession over how to deal with the effects of inflation, the Committee chairman, Samuel J. Broad, informed AIA members that the Committee has reaffirmed its position expressed in ARB No. 33, namely, "that no basic change in the accounting treatment of depreciation of plant and equipment is practicable or desirable under present conditions." Four of the Committee's 21 members, including Broad himself (and Paton), dissented. The issue was becoming even more contentious. Yet the Committee gave its "full support to the use of supplementary financial schedules, explanations or footnotes by which management may explain the need for retention of earnings." In Chapter 9A of ARB No. 43, issued in 1953, which was the "restatement and revision" of previous *Bulletins*, the Committee again reaffirmed its position previously expressed in ARB No. 33 but this time with six dissents, the maximum number of the 20-member Committee needed to approve a chapter. In Chapter 9B, the Committee again reaffirmed its position that, when appreciation has been entered on the books, subsequent depreciation should be based on the written-up amount.

Similar, extensive treatments of whether appraisals on tangible fixed assets should be recorded, and, if so, how the subsequent depreciation should be recorded, were included in Finney and Miller's 1951 and 1958 editions. They retained Finney's earlier position on the subsequent recording of depreciation after entering an appraisal, notwithstanding the Committee on Accounting Procedure's reaffirmation that, where appraisals have been entered, subsequent depreciation should be based on the appraised amount.

A new flavor supplied by Miller is evident: in both editions there was a sympathetic reference to the possibility of extending quasi-reorganization accounting to fixed asset write-ups, not just, as in the past, to fixed asset write-downs – a view that Miller had advocated in a 1948 article. But the authors acknowledged that, thus far, neither the AIA nor the SEC has "looked favorably upon such a procedure" [1951, p. 485; 1958, p. 395].

In both the authors' treatments of GPL accounting and the appraisal-depreciation issue, they provided lengthy and thoughtful arguments pro and con, and they did not unquestioningly accept the dicta of the Committee on Accounting Procedure.

"Clean surplus" versus the "current operating concept" of the income statement: This issue arose in the 1940s, when the Committee on Accounting Procedure began addressing the issue of how to account for non-recurring elements in income. The first of the four editions to deal with it was the one published in 1946. In 1½ pages [pp. 47-48], Finney discussed the "clean surplus" theory, which may have been the earliest use of this term in the accounting literature. The discussion recited the advantages and disadvantages of ridding surplus (i.e., retained earn-

ings) of non-recurring or extraneous items. Finney concluded by pointing out that bringing the Statement of Profit and Loss and the Statement of Surplus together into a combined statement is a pragmatic way of dealing with the issue. Yet his recommendation is mystifying: rather than prepare a combined statement, "it seems more desirable to strike at the root of the matter and try to correct the abuses" [p. 49]. What abuses? Perhaps to clarify, he added that, if separate statements were prepared, "it would perhaps be desirable to indicate in the income statement, by a footnote or otherwise, that other changes in surplus during the period are shown in the surplus statement" [p. 49].

By the time the 1951 edition appeared, the Committee on Accounting Procedure and the SEC's accounting staff had crossed swords on the issue. In ARB No. 32, issued in 1947 with three dissents, the Committee recommended that non-recurring and extraneous items be recorded directly in surplus, and not affect the determination of net income, which it labeled the "current operating concept." The SEC's accounting staff, preferring a clean surplus (also known as the "all-inclusive approach"), made it known that "the Commission has authorized the staff to take exception to financial statements which appear to be misleading, even though they reflect the application of Accounting Research Bulletin No. 32" ["SEC May Take Exception…," 1948]. Hence, the SEC fired up a controversy. In their 1951 edition, Finney and Miller made it plain that preparing a combined income and surplus statement should not be regarded as a compromise between the two positions [p. 115]. The authors, after presenting elaborate arguments in support of both views, finessed by writing, "In view of the impressive authority supporting each side of this controversy, it is perhaps undesirable for a textbook to take a firm, definite position on the question" [p. 116]. They returned to the issue later in the book, where they intoned with their criticism of the lack of agreement among accountants: "The variety of acceptable alternatives [in accounting] is bound to be confusing to the non-accountant. The differences of opinion [such as this one] that continue to prevail may not be a credit to the profession of accountancy" [p. 614]. Curiously, Finney and Miller did not disclose that the SEC had publicly rebuffed the Committee on Accounting Procedure following the latter's 18-3 vote in ARB No. 32, with all of the members from the eight largest accounting firms agreeing with the majority position. In the 1958 edition, the authors again recited the arguments for each side but again declined to take a position [pp. 73-78].

H. A. Finney was a member of the Committee on Accounting Procedure from 1949 to 1953, arriving in the wake of this avowed disagreement between the Committee and the SEC.

Three other intermediate textbooks of the period did not cover this controversy at all [Newlove, Smith and White, 1948; Karrenbrock and Simons, 1949; and Moonitz and Staehling, 1952]. Moonitz and Jordan, in their 1964 edition, canvassed the views on both sides but did not state their own position [pp. 471-477].

Income tax allocation: This controversy over whether the income tax expense follows actual tax payments or is to be allocated across periods when an item of current expense is deducted from taxes in another fiscal period, did not surface until the 1940s, and then only in subdued tones. In ARB No. 23, issued in 1944, the Committee on Accounting Procedure declared, "Income taxes are an expense which should be allocated, when necessary and practicable, to income and other accounts, as other expenses are allocated." But the SEC, in Accounting Series Release (ASR) No. 53, issued the following year, promptly disagreed: "The amount shown as provision for taxes should reflect only actual taxes believed to be payable under the applicable tax laws." The battle lines were drawn, but the amounts involved were small. Then, when Congress passed the Internal Revenue Code of 1954, it allowed taxpayers, for the first time, to use sum-of-the-years' digits and double-declining balance as depreciation methods, while not requiring them to use the same methods for financial reporting purposes. As a result of many companies adopting one of these accelerated methods for tax purposes, while continuing to use the straight-line method for financial reporting, income tax allocation, or deferred tax accounting, suddenly became a material issue.

Income tax allocation was immediately controversial within the accounting profession. Two Big Eight firms, Price Waterhouse & Co. and Haskins & Sells, made it known that they did not accept such allocation in principle. Arthur Andersen & Co., on the other hand, said it strongly supported allocation. In 1954, in ARB No. 44, the Committee on Accounting Procedure said that "it may be that accounting recognition should be given to deferred income taxes," except where the deferred tax credit would not reverse in the foreseeable future. This was no more than half-hearted support by a divided Committee. In 1958 (after the authors' book went to press), in ARB No. 44 Revised, the Committee adopted a rather more forceful position in favor of allocation. Herbert Miller had become a member of the Committee in 1956, and he was aware of the strongly held views on both sides of the question. In addition, in 1957, the AAA's committee on accounting concepts and standards recommended against income tax allocation, with one dissent [*Accounting and Reporting Standards*…, 1957, pp. 6-7].

Because the controversy did not have all that material an effect for many companies until 1954, there was no discussion of income tax allocation in the 1934, 1946 and 1951 editions. But it occupied all of a 21-page chapter in the 1958 edition [pp. 602-622]. In their preface to the edition, the authors explained the need for this chapter as follows:

> The practice of allocating income taxes is perhaps the most significant development affecting the basic theoretical structure of accounting, particularly the concept of net income, in the last fifteen years. It is time that this subject was included in accounting textbooks. [p. vi]

Finney and Miller's chapter on income tax allocation, which covered both intraperiod and interperiod allocation, would surely have been the longest treatment of the subject in any textbook until then. As was also the case with GPL accounting, to which the authors also accorded a separate chapter in the 1958 edition, tax allocation was not yet "generally accepted," as the authors pointed out [p. 604]. They duly quoted from the AAA committee's 1957 statement, which questioned the propriety of allocation [p. 622]. At the outset of the chapter, the authors cited both ARB No. 23 and ASR No. 53 from the 1940s, and recited the two excerpts quoted above. They mentioned that "there have been some instances where firms of certified public accountants have qualified their opinion because the client did not use the income tax allocation procedures" [p. 604].

The tenor of the authors' chapter implied that they supported interperiod tax allocation. Indeed, they said that, if the tax expense is reported for accounting purposes without tax allocation, it will lead to "distorted net income figures" [p. 622]. "Distortion" or "distorted" were not terms used in ARB No. 44. Interesting is the fact that the authors referred throughout to the "deferred tax liability." Neither ARB No. 44 nor ARB No. 44 Revised used the term "liability," which was in itself the subject of controversy. The critics of allocation, including the AAA committee, insisted that there was no liability in the true sense.

In their 1963 edition, Meigs, Johnson and Keller devoted a 16-page chapter to income tax allocation, giving the pros and cons but without stating their own view on the controversy. By contrast, Karrenbrock and Simons, in their 1958 edition of intermediate accounting, covered interperiod tax allocation in a scant five pages in a chapter on current liabilities [pp. 339-344]. They discussed intraperiod allocation in a bit more than a page earlier in the book [pp. 39-41]. Milroy and Walden, in their 1960 edition of intermediate accounting, did not take up interperiod income tax allocation at all.

Income tax allocation was an instance, as with GPL accounting, where Finney and Miller were evidently sympathetic with non-GAAP measures and disclosures to justify according them full chapters in their intermediate accounting textbook. This coverage, especially in the textbook that was believed to be the market leader, may have helped garner support for these emerging approaches.

COMPARISON WITH THE TENDENCY IN TODAY'S INTERMEDIATE ACCOUNTING TEXTBOOKS

In the four editions of their textbooks, Finney and Finney/Miller provided a much more elaborate discussion of accounting issues and practices, including the arguments for and against alternative methods, than was typical of intermediate accounting textbooks from the 1930s to the 1950s. Only Paton's line of textbooks could compare [Zeff, 1979a]. They were not reluctant to criticize practices with which they disagreed, they recommended proper practice in the absence of sound authoritative guidance, and they gave considerable space to non-GAAP, or emerging-GAAP, measurements and disclosures which they believed had the potential of becoming GAAP. They did not just blandly exposit generally accepted practice. They were critics and innovators, and, one supposes – but there is no hard evidence to support this view – that public accountants, company accountants, and professional leaders may have consulted their textbook on issues where the authoritative literature was found to be wanting. For example, Perry Mason, in his research study for the APB, *"Cash Flow" Analysis and the Funds Statement* [1961], cited Finney and Miller's 1958 edition, together with three other textbooks, for their treatment of the funds statement, and he also cited their 1958 edition for its chapter on the cash-flow statement [pp. 51 ftn. 2, 95].

The authors of today's intermediate accounting textbooks seldom critique any standards and practices, and they typically confine their coverage to issues on which standards, interpretations or concepts statements have been issued. Occasionally, they recite the pros and cons of alternative treatments, but their treatment is usually perfunctory, without any discussion or elaboration. They do not, for example, discuss potentially useful disclosures that have not been mandated in the U.S., such as value added statements (which are currently required in Brazil and were recommended and widely adopted in the U.K. in the 1970s) and financial forecasts (which were recommended in 1973 by the Trueblood Study Group on the Objectives of Financial Statements). Thus, they do not stimulate the reader's intellect and curiosity, and they do not seek to improve financial reporting. When they compare U.S. GAAP with International Financial Reporting Standards (IFRS), they almost never undertake to explain the likely reason why differences between the two originated, or which of the two has the better standard where there are salient differences. A reviewer of Finney and Miller's 1951 edition said that "there is more accent on the 'why' and less on the 'how'" [Heilman, 1951, pp. 598-599]. In contemporary intermediate textbooks, generally speaking, the accent is very much on the "how," and when the "why" is given, it is perfunctorily dispatched. Ray Ball [2009, p. 305] made a similar point when he argued that "accounting textbooks and instructors might balance their coverage of GAAP pronouncements with coverage of judging whether the financial statements fairly represent the company's financial position." In 2007, Joel Demski has written, even more strongly, "Our textbooks are intellectually embarrassing" [p. 156].

The blandness of intermediate accounting textbooks is hardly a new issue. The subject was debated in a conference entitled "The Impact of Rule-Making on Intermediate Financial Accounting Textbooks," held at The Ohio State University in June 1982 [Jensen, 1982], following a series of critical editorials by the editor of *The Accounting Review* [Zeff, 1979b, 1980]. In one of the papers at the conference, Thomas F. Keller, a former coauthor of a leading intermediate textbook, complained of "the increasingly rules-oriented, mechanistic intermediate accounting course, and its textbook" [1982, p. 59].

One can perhaps justify the more descriptive approach of the authors of today's intermediate accounting books on the ground that definitive pronouncements cover almost everything, and that they are better researched, unlike the far fewer and more permissive pronouncements from the 1930s to the 1950s. And there is now a conceptual framework on which to base the standards. To a degree, these are valid points, but it is open to debate whether, and to what extent, most standards are grounded in the conceptual framework, especially when there were lobbying efforts by preparers. Also, there are gaps in the authoritative literature, and authors are, after all, at liberty to take a critical stand against what they regard as flawed standards. As to gaps, the U.S. still does not have a standard on accounting for investment properties such as shopping centers and office buildings, where rents are the income stream. The U.K., Australia and New Zealand have had such a standard for decades, and International Accounting Standard (IAS) 40, approved in 2000, is currently the guidance for investment properties at the international level, providing that companies may revalue such properties each year and not record any depreciation. U.S. textbooks say nothing about the desirability of such a standard, except to acknowledge the existence of IAS 40. Nor does the U.S. have a full standard on accounting for the fair value of agriculture, comparable to IAS 41.

As to critiques of standards, textbook authors could well raise serious questions about some of the more contentious of today's standards and practices, including the sample of eight which follow: (1) the requirement to expense all research and development costs [SFAS 2]; (2) the requirement to conduct a "recoverability test" before determining whether limited-life long-lived assets have been impaired [SFAS 144]; (3) the "corridor" approach to accounting for the pension liability [SFAS 87]; (4) the coexistence of "full costing" and "successful efforts costing" for petroleum exploration costs [SFAS 25]; (5), the unconstrained choice of LIFO, FIFO, and average methods for merchandise inventory [ARB No. 43, chap. 4]; (6) the required use by a creditor of a loan's effective interest rate, rather than the fair value, when the loan is impaired [SFAS 114]; (7) the requirement that the liability for an issuance of convertible bonds be measured at the total proceeds received rather than by using the present value at the interest rate for straight debt [APB Opinion 14]; and (8) the required use of market value to record small stock dividends [ARB No. 43, chap. 7B], which no other country ever has had in its GAAP. These eight are all easy targets. For most of them, IFRS is different. At the least, textbook authors could draw attention to these and other controversies and discuss the arguments pro and con on each (other than perfunctorily), including a bit of history on why the suspect standards emerged the way they did, and what attempts have been made, if any, to revise them.

While the FASB has just issued a new standards update on accounting for the long-term, non-cancellable leases of lessees, requiring the discounted value of the lease payments to be shown as an asset and liability, how many authors of intermediate accounting textbooks had previously criticized SFAS 13 and its many amendments about this egregious example of off-balance sheet financing? Moreover, in January 2016 the FASB issued Accounting Standards Update No. 2016-01, which eliminated the "available for sale" classification for investments in equity securities. Prior to then, how many authors of intermediate textbooks had criticized the dubious distinction between "available for sale" and "trading" securities since the FASB devised them in the face of intense lobbying by the banking industry in 1993? There are numerous deficiencies in GAAP which the authors of intermediate textbooks could rightly criticize and therefore engage the intellect of students and teachers alike. They would be following the estimable lead of Finney, and Finney and Miller, if they were to begin stating their positions on the propriety of standards and practices, and recommending improvements.

What explains the disinclination of today's intermediate textbook authors, compared to a number of those between the 1930s and the 1950s, to be normativists when discoursing on accounting standards and practice? One may speculate at length on this question, but an explanation may be the lack of a thick normative vein in the accounting literature, compared to the decades prior to the 1970s. Today's accounting academics, at least those who lead and shape the research literature, are predominantly empiricists, who may eschew the view that they should be professing opinions on the legitimacy of standards and practices unless there is solid empirical research to support their views. Normative argument, at least in the leading research journals, has gone out of favor, and this circumstance and thinking have come to infect the textbooks as well.

It may be pointed out, too, that today's intermediate accounting textbooks are already very thick volumes, with a great deal of prescriptive material to be covered. But a page or two of pointed discussion would be enough to raise issues about the soundness of each of the standards or practices such as those enumerated above. No more than twenty pages, at most, in the textbooks would be required to achieve this aim.

While this paper deals solely with U.S. textbooks and with U.S. GAAP, the author's argument may well apply in other countries, where textbooks discuss IFRS and national GAAP exclusively in descriptive terms, without stimulating students to be critical of standard practice.

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