Financial statements are based on generally accepted accounting principles—but developing and applying these principles creates a variety of problems.

WHAT ARE THE BASIC

EVERY DAY CERTIFIED PUBLIC ACCOUNTANTS SIGN reports which state flatly that the accompanying financial statements are "fairly presented in accordance with generally accepted accounting principles." We CPA's have been making that representation for upwards of 25 years. During that time there must have been literally hundreds of thousands, if not millions, of discussions and arguments with clients, attorneys, bankers, investment bankers, other accountants, and government agencies as to whether a particular treatment was or was not in accordance with generally accepted accounting principles.

During the same period, ideas as to what principles are, in fact, "generally accepted" have changed. To cite but two examples: Purchased good will is not now, as such, to be written off against capital surplus, and LIFO has come to be an accepted method of stating inventories.

The SEC partially faced up to this problem in 1938 by issuing its