7-1976

An Explanation of Why the Securities and Exchange Commission Reversed Its Position on Publishing Financial Forecasts

Wayne M. Schmaltz

AN EXPLANATION OF WHY THE SECURITIES AND EXCHANGE COMMISSION REVERSED ITS POSITION ON PUBLISHING FINANCIAL FORECASTS

by

Wayne M. Schmaltz

Bachelor of Science, Dickinson State 1970

An Independent Study

Submitted to the Faculty

of the

University of North Dakota

in partial fulfillment of the requirements

for the degree of

Master of Science

Grand Forks, North Dakota

July
1976

TABLE OF CONTENTS

INTRODUCTION

In May 1976, the Securities and Exchange Commission temporarily altered its plans in developing guidelines for voluntary reporting of profit forecasts.[1] This action returned the SEC to the same position it previously held. This position specifically prohibited the filing of profit forecasts with other reports filed with the Commission. Why did the SEC reverse itself?

The movement to published financial forecasts began in the late 1960's. Security analysts asked the SEC to reverse its stand on not allowing forecasts to be published with other filings required by the SEC.[2] Then on February 2, 1973, the Commission issued Rel. No. 5362, a "Statement by the Commission on the Disclosure of Projections of Future Economic Performance." The new policy permitted companies under the Commission's jurisdiction to voluntarily disclose their forecasts if the following conditions were met:

> The underlying assumptions should be set forth; the projection should be of sales and earnings and expressed as a reasonably definite figure; and the projections should be for a reasonable period of time.
>
> Any issuer who files projection information should be required to update the filed projection on a regular basis and whenever the issuer materially changes its projection.
>
> Any issuer who has previously filed projection information should be allowed to stop filing such information if it discloses the resulting decision and the reasons for it.
>
> No statement of verification or certification of the projections by any third party should be permitted in any filing with the commission at this time.
>
> Any issuer subject to the reporting requirements of the Exchange Act who discloses a projection, whether in a commission filing or not, should be required to include in its annual report on Form 10-K for the fiscal year during which the projection was

made, a statement of the projection made, the circumstances under which it was disclosed, and a comparison of the projection with actual results.[3]

One of the most talked about topics in financial circles concerning the Commission's February 2, 1973 release was, "What effect will this have on corporate management, financial analysts, and Certified Public Accountants?" The Commission answered this question by proposing to develop standards and guidelines ". . . that will enable all users to understand their responsibilities. . . ."[4] To fulfill their promise they issued on April 28, 1975, the Securities Act Release No. 5581. It contained the Commission's proposed amendments to various registration statement forms. Along with this release the SEC asked for comments to be filed no later than June 30, 1975. The reaction was overwhelmingly negative. Many companies stated they would stop making projections rather than making forecasts and being forced to comply with the proposed amendments.[5] The SEC was surprised, but it should not have been. Chairman James J. Needham of the New York Stock Exchange stated, "I feel very strongly that the SEC not only should abandon the idea of requiring companies to include earnings and other financial forecasts in documents filed with the commission--but that it should continue the existing prohibition against the inclusion of such forecasts."[6] The Financial Executives Institute also expressed a negative position and stated that it had doubts the projections would serve any useful purpose.[7] The public accounting firms of Arthur Andersen & Co., Haskins & Sells, Coopers and Lybrand, and many others also voiced their opposition. What were they opposed to?

This paper will propose answers to the forementioned two questions:

Why did the SEC reverse its 1972 stand concerning forecasts? What were the financial analysts, managers and CPAs opposed to?

In proposing answers to the above two questions, this paper will deal only with the negative aspects of forecasting. There are many positive aspects arising from publishing forecasts, but for the ease of understanding they will be ignored. The purpose of this paper is not to compare and contrast the positive and negative aspects involved in forecasting. The purpose of this paper is to provide an understanding of the negative aspects of published financial forecasts that prompted the Securities and Exchange Commission to reverse its position.

ENDNOTES

[1] News Report, "SEC," Journal of Accountancy, May 1976, p. 11.

[2] Robert D. Poirier, "Financial Forecasts: To Disclose or Not Disclose," Massachusetts CPA Review, September-October 1974, p. 6.

[3] Glenda E. Reid, "Forecasting Quantitative Data," Women CPA, October 1974, p. 23.

[4] News Report, "SEC," Journal of Accountancy, June 1975, p. 12.

[5] News Report, "SEC," Journal of Accountancy, May 1976, p. 11.

[6] Bedingfield and Lubell, "Extension of Attest Function to Published Forecasts," CPA Journal, January 1974, p. 40.

[7] Ibid.

CHAPTER I

THE DEFINITION OF A FORECAST

In order to attempt to understand the feelings of management, investors, and CPA's toward financial forecasts, a concept of what a forecast is must be developed. The word forecast can be defined in many ways and in many different terms. To be meaningful to a person in a certain environment, it must be defined in the terms of that environment. Some of the more common business environment definitions of the term forecasts are as follows: (1) a forecast is an estimate of what will take place,[1] (2) a forecast is the level of profitability a company can be expected to achieve,[2] (3) a financial summary of the best estimate of future expectations,[3] or (4) a forecast is any estimate of financial results made in advance of completion of audited financial statements, for the future accounting period.[4] Although the words used in the above definitions vary, there seems to be several points of agreement. A forecast is an "estimate" of "expectations." A forecast is not an internal budget. However, both derive their information from the same basic data.[5] The important point of distinction is that the forecast takes the information that is compiled into the internal budget and estimates the effect certain future happenings will have on the internal budget.

The certain happenings previously referred to are called assumptions. They have been defined as the set of hypotheses that support the forecast, and they can be classified as: technical assumptions; planning assumptions; and standard assumptions.[6] Technical assumptions refer to the methodologies and techniques used to prepare the forecast. Planning assumptions refer to marketing and production strategies. The standard assumptions are the assumptions concerning the preparation of the forecast itself. They are like Generally Accepted Accounting Principles in that the reader assumes that, unless otherwise mentioned, the forecast was prepared with the same accounting principles that were used in preparing financial statements.

Some of the more common assumptions considered in preparing a forecast are as follows: the industry outlook, product outlook, selling price, wage increases, cost increases, actions of the government, the fluctuation of dollar exchange values, capacity, research and development in process, and working capital changes.[7] A list of assumptions and their suggested presentation can be found in Appendix A.

In summary, management gathers the required information and prepares the internal budget. Assumptions concerning the future are made. The assumptions and internal budget are combined to prepare the forecast. The time period covered can be any length, but one year is most commonly the time period covered by the forecast. The tax and financial statement reporting requirements of most companies best explain why this is so. The content of the forecast consists of transactions and events expected to occur within the time period covered by the forecast, and the consequences of those transactions and events on future and historical operations.[8]

The information in the forecast can be used as a measuring stick to be compared with actual results and as a guide to future earning potential. The kind of forecast prepared is dictated by the kind of information wanted. Some of the more common forecasts prepared are: revenue, earnings by product, expenses, capital expenditures, cash, capacity, and research and development.[9]

Because different types of forecasted data can be prepared, financial forecasts can be a valuable tool to the investor. But in the U. S., forecasted information has been considered inside information. In other words, forecasts were not made available to the public unless a company wanted to release such information. After the SEC pronouncement of February 1973, it was the consensus in financial circles that it was only a matter of time before published forecasts were a reporting requirement of the SEC. This viewpoint was supported by the assertions of the former chairman of the SEC, William Casey. He believed the limited access to financial forecasts was inequitable. Casey's contention was that forecasted information was provided to security analysts, thus giving them an edge over other investors.[10] This fact was substantiated in a study conducted by the Financial Analysts Federation. They reported that 40% of the 1,000 financial analysts surveyed received some kind of forecast from more than half the companies they followed.[11] Therefore, Casey was in favor of all potential investors having access to projected or forecasted information.

Because the threat of required published forecasts existed, a clamor arose from all sections of the business community. In many publications of the period the list of advantages of publishing financial forecasts was far shorter than the list of disadvantages.

Some of the disadvantages that were transformed into negative responses were: fear of giving a competitive advantage, emphasis on short range rather than long range growth, accuracy, and legal liability.[12] Although the disadvantages listed appear to be independent, they appear so only for ease of reportability. In reality it is questionable whether they can be separated. A brief discussion of the reasons behind each of these fears will illustrate that fact clearly.

Management was afraid that if forecasts were made public, the information released would give competitors an economic edge. Since the forecast is a combination of the internal budget and assumptions, and since the assumptions would have to be disclosed to make the forecast meaningful, the management of many companies felt that competitors would discern their company's position and strategies and would try to counteract them. The fear was that private information essential to the well being and success of the firm would have to be disclosed.

Along with the fear of divulging important information came the realization that short range goals may be emphasized more than long range growth. Under the Stewardship Theory, management is in a fiduciary position. As such they are responsible for financial reporting. This means they can decide on the reporting methods and the reporting format.[13] The possibility existed that if the forecast was published, the stockholders may try to use the achievement or nonachievement as a measure of a successful management staff. If this was the case, management may emphasize the short range goals. By doing so they could cut down the period covered by the forecast and thus cut down the uncertainty that goes along with time. In this way management could insure achievability of the forecast, but it would also create a situation of suboptimization in that long range goals would be neglected.

If the forecast was to be used as a yardstick of success, and if potential investors were going to rely on its information for investment decisions, then the forecast must be accurate. This thought created the problem of how to make the forecast more accurate. Since it is created with assumptions that project the future, the forecast is a prediction that may or may not come true. Publishing the forecast wouldn't improve the accuracy because it couldn't reduce risk and the unknowns that exist with predictions.[14] Management would have to devise a recording system that insured accuracy.

The development of an accurate forecasting system was not only the concern of management but also of financial analysts and CPA's. Financial analysts wanted accurate information to assist in making investment decisions, and CPA's wanted an accurate information system for arriving at forecasts so auditing techniques could be applied if they were to attest to the forecasts.

Along with the forementioned disadvantages, management, financial analysts, and CPA's were also very concerned with the possibility that liability would be increased, thus increasing the possibility of potential lawsuits. If published, the forecast would be the responsibility of management. If a financial analyst gave his opinion on an investment decision based on the forecast, he would be liable for his expert advice. Likewise, if the CPA had to attest to the forecast, he would be liable for the expression of his opinion. If any of the above three contributed information to the SEC registration statement concerning the forecast, their liability would increase under the Securities Acts of 1933 and 1934. The Act of 1934 stated that it was unlawful to make an untrue statement of fact in the sale of securities.[15]

Although management, financial analysts, and CPA's all agreed on the disadvantage of increased liability if forecasts were published;

they also all three agreed that published financial forecasts would be a tremendous tool to the average investor in reducing the risk of investment. The agreement that published forecasts were an advantage to the investor led to the thought that if an accurate system of forecasting was developed, and if management, analysts, and CPAs accepted the increased liability and if the forecasts were published, the cost of the disadvantages would outweigh the main advantage if the average investor was not sophisticated enough to know how to intelligently interpret and use the forecast.

ENDNOTES

[1] Glenda E. Reid, "Forecasting Quantitative Data," Women CPA, October 1974, p. 23.

[2] Accountants International Study Group, Published Profit Forecasts (New York: Newport Press, Inc., 1974), par. 2.

[3] Leopold Schachner, "Published Forecasts and Internal Budgets," CPA Journal, January 1975, p. 20.

[4] Accountants International Study Group, Published Profit Forecasts, par. 1.

[5] Schachner, "Published Forecasts and Internal Budgets," p. 20.

[6] Clark, Elgers, and Speagle, "Role of Assumptions in Financial Accounting," Journal of Accountancy, July 1974, p. 64.

[7] William G. Brown, "Exploring Forecast Disclosure," Management Accounting, December 1974, p. 21.

[8] Nichols and Parker, "To Forecast or Not to Forecast," Managerial Planning, January-February 1975, p. 9.

[9] Ibid., p. 19.

[10] Carpenter and Daily, "Controllers and CPA's: Two Views of Published Forecasts," Business Horizons, August 1974, p. 73.

[11] Ibid.

[12]Robert D. Poirier, "Financial Forecasts: To Disclose or Not Disclose," Massachusetts CPA Review, September-October 1974, pp. 8-10.

[13]Nickerson, Pointer, and Strawser, "Published Forecasts: Choice or Obligation," Financial Executive, February 1974, p. 11.

[14]D. R. Carmichael, "Assurance Function--Auditing at the Crossroads," Journal of Accountancy, September 1974, p. 84.

[15]Poirier, "Financial Forecasts: To Disclose or Not Disclose," p. 8.

CHAPTER II

OBJECTIONS OF INVESTOR USE OF FORECASTS

One of the most important reasons for publishing forecasts along with other SEC registration statements was that it would help the average investor reduce the risk of investment. Along with this advantage went the concern that the ordinary user would not have the expertise to know how to use the forecast to his best advantage. D. R. Carmichael believes that ". . . the users of forecasts will recognize that they are only management's best estimate and not a guarantee of future operating results."[1] However, a majority of financial analysts and management believed that because 100% accuracy could not be guaranteed, serious problems would arise with the publishing of forecasts. The main problem they believed would arise was that the deviations of actual results from forecasted data would cause a credibility gap and resentment between the shareholders and the company.[2] A study published in the October 1971 issue of <u>Accounting Review</u> supported the fact that 100% accuracy could not be maintained. The study found that in the companies studied the differences between forecasted net income and actual net income were greater than 15% in at least one third of the observations.[3] What effect would this type of situation have on investors? The answer may be determined from examining a survey of the attitudes of Fuqua stockholders.

Fuqua is a conglomerate with 25 subsidiaries. It is listed on the New York Stock Exchange and has a total of 25,000 shareholders. Its operations are decentralized with over 16,000 employees. The corporate staff consists of 40 individuals. One half are in the financial departments with the other half in the legal and insurance areas. In preparing its internal budget Fuqua begins in the fall and budgets for 12 months. Each subsidiary president presents his company's budget. From these the corporate budget is prepared. The corporate budget is updated each quarter with actual results compared with budgeted figures.[4] Fuqua began forecasting in 1972 with better communication as its main aim and concern.

Charles Nickerson, Larry Pointer, and Robert Strawser surveyed the stockholders of Fuqua to study the attitudes the stockholders have concerning the published forecast. Questionnaires were sent to 2,000 individual stockholders with 465 responding. The stockholders were quizzed on their attitudes toward the forecast of sales, the forecast of earning, and estimates of error.[5]

Concerning the forecast of sales 90% of the Fuqua stockholders responding expected estimated annual sales would be within a variance of 10% of actual results. Also 63.6% believed that the firm would be able to predict sales within a variance of 5%.[6] This attitude is contrasted with the results of a Financial Executives Research Foundation survey previously conducted to examine the attitudes of companies toward their ability to forecast with accuracy. On the companies responding 84% believed they could predict corporate sales within a 10% variance.[7]

In the Financial Executives Research Foundation survey on forecasting earnings, 70% of the companies surveyed felt their actual results didn't differ from the forecast by more than 10%. On the other hand 61.5% of the Fuqua stockholders anticipated that estimates of annual net income of Fuqua would have a variance of less than 5%.[8]

Fuqua stockholders were also asked if it would be useful to have estimates of error accompany the forecasts of sales and earnings. Over 50% of the respondents indicated that the estimates would be extremely or very helpful. However, there was no attempt to determine if the stockholders were familiar with statistical confidence intervals or their use.[9]

The study of the attitudes of Fuqua stockholders toward forecasts as compared with the Financial Executives Research Foundation study on companies' attitudes towards their forecasts suggests that investors may be more optimistic concerning how accurate forecasts are. If this is coupled with the results of a Financial Analysts Federation research survey it is easy to see potential trouble exists. The Financial Analyst Federation survey revealed that, of the forecasts examined, the average deviation from actual results for 12 months was 10 to 15% with a range of 3 to 50%.[10] This suggests that because of the expectations of investors toward forecasts, it may be more dangerous to give the average investor a forecast with a potential 10 to 15% variance than to not give him one at all.

Another survey conducted by John C. Corless and Corine T. Norgaard also seems to substantiate the theory that only the more sophisticated investor is capable of interpreting and using the forecast wisely in making investment decisions. Questionnaires were sent to 750 financial analysts that were randomly selected from the Financial Analysts Federation of Boston and New York City. Of the 750 analysts surveyed 264 responded. Also, questionnaires were given to 25 analysts selected from the Financial Analysts Federation in Hartford along with 80 MBA students from the University of Connecticut.[11] The tabulated results appear in Appendix B.

The students' group showed greater confidence in a forecast on which a CPA reported on the forecast data. Currently the Code of Professional Ethics of the AICPA prohibits a member attesting to a forecast. However, it does not prohibit a member from preparing or assisting in the preparing of a forecast, or to give negative assurances with SEC filings. Thus the less sophisticated investor may have a tendency to confuse a CPA's report on forecast data with an attest on financial statements.

Therefore, if the ordinary investor has problems interpreting the information on a forecast, the second problem is to solve the first by determing what kind of assumptions concerning forecasted data presented should be disclosed. The greater the detail in disclosure the less likely the investor will be misled, but the more likely management is to divulge information it doesn't want to. The number of diverse combinations of variables raise a formidable obstacle as to disclosure. The SEC says only those assumptions whose violation would significantly alter the estimate, causing the investor to make a different decision, should be disclosed.[12]

Given the situation that ordinary investors find some difficulty interpreting the level of accuracy to be expected and interpret a CPA's report on forecasted data as an attest, it is highly probable that they will not realize the limitations of disclosed assumptions. They may attempt to substitute other values for those in the assumptions. Only in rare cases could they trace the effect thru the interrelationships of sales and costs.[13] Therefore, because the forecast is the representation of management, and because management is liable for the representations they may make in registration under the Securities Acts of 1933 and 1934, the logical solution would seem to be not to forecast. It seems the potential costs of increased liability, giving competitors an advantage, and the uselessness of the forecast in the hands of the common investor warrant a negative reaction to publishing forecasts.

ENDNOTES

[1] D. R. Carmichael, "Financial Forecasts--The Potential Role of Independent CPA's," Journal of Accountancy, September 1974, p. 86.

[2] William G. Brown, "Exploring Forecast Disclosure," Management Accounting, December 1974, p. 20.

[3] Nickerson, Pointer, Strawser, "Published Forecasts: Choice or Obligation?", Financial Executive, February 1974, p. 71.

[4] Keith Johnson, "One Company's Forecasting," CPA Journal, September 1974, p. 47.

[5] Nickerson, Pointer, Strawser, "Published Forecasts: Choice or Obligation?", pp. 71-72.

[6] Ibid., p. 72.

[7] Ibid., p. 71.

[8] Ibid., p. 72.

[9] Ibid.

[10] Robert D. Poirier, "Financial Forecasts: To Disclose or Not Disclose," Massachusetts CPA Review, September-October 1974, p. 8.

[11] Corless and Norgaard, "User Reactions to CPA Reports on Forecasts," Journal of Accountancy, August 1974, p. 47.

[12] Clark, Elgers, Speagle, "The Role of Assumptions in Financial Forecasts," Journal of Accountancy, July 1974, p. 65.

[13] Ibid., p. 67.

CHAPTER III

OBJECTIONS OF MANAGEMENT TO FORECASTING

Disclosure of a forecast is the disclosure of interpretive information about unknowns based on things that are known. To prepare this interpretive information for publication one must: predict the events, determine the effects of such events, and associate the cause and effect.[1] Paul Bradshaw, vice president of finance for Wayne Gossard Corporation, has said corporations in the U.S. give out more information than do corporations in other countries, but people in the U.S. still demand more disclosure.[2] Generally, financial managers and executives are opposed to more disclosure in the form of forecasts. They are afraid the public will misinterpret the information presented. This coupled with the potential increase in liability caused many executives and managers to balk at the idea of publishing their companies' forecasts.

Richard Asbrook and D. R. Carmichael took a survey to determine the attitudes toward forecasts. Included in the survey were some of the members of the Financial Executives Institute. Of the Institute members surveyed 57% believed if forecasts were published they would be misinterpreted.[3] Coopers and Lybrand, a public accounting firm, received 1,300 responses from the companies interviewed concerning forecasting. They found 52% of corporate decision makers were against public disclosure of financial forecasts.[4]

In a survey of its own members by the Financial Executive Research Foundation the respondents stated their sales forecasts were 90% accurate and their earnings forecast was 90% accurate. Actually the sales forecasts were only 85% accurate with the earnings forecast 70% accurate.[5] This information coupled with the fact that investors expect only a 10% variance suggests management should be concerned with potential increased liability.

It appears then that the main objections of executives and managers to publishing financial forecasts were investor misinterpretation and increased liability. However, how would they feel if forecasts were required to be published? Charles G. Carpenter and R. Austin Daily surveyed 320 controllers of Fortune 500 corporations, of which 166 responded. A portion of the results are as follows:

1. 40% of the controllers opposed presenting forecasted information with actual results.
2. 83% indicated that the forecasted information presented would be more conservative than internal forecasts prepared for corporate decision making.
3. 65% opposed presenting two or more years of annual forecasts along with actual results.
4. 40% believed the publishing forecasts would cause management to make more short run decisions to minimize the difference between actual results and forecasted data.
5. 78% believe publication would damage the competitive edge of their company.
6. 62% believed that the underlying assumptions depend on forecasting experience and that they couldn't be evaluated objectively.
7. 77% of the controllers didn't believe that a CPA's audit report should include a reference to a forecast.
8. 82% felt that CPAs were not competent enough to evaluate assumptions.
9. Additional comments of the controllers were as follows:
    a. Historical financial reports are difficult to interpret due to a divergence of accounting principles. To add forecasting would only compound the issue.
    b. It is relatively easy to explain variations from forecasts to "insiders" who are knowledgeable regarding a company's operations. The same explanations to unrelated shareholders would be much more difficult.

c. Forecasting is not an exact science. Experienced forecasters will apply some "Kentucky windage" to all projections based on their own past experience. Any attempt to define this approach to uninformed shareholders would be difficult at best.

d. In many cases, the knowledge of a business possessed by CPAs is minimal at best. Placing such persons in the position of attesting to forecasting assumptions does not appear in the best interests of either the CPA or the company.[6]

One controller in the Carpenter and Daily survey said a 5% variance between the forecasted sales figure and the actual sales figure could cause a 50% profit variation.[7] It would seem then that irregardless of whether the forecast is published or not management's concerns are reducing liability and finding a reporting format that will reduce misinterpretation. To do this they will have to keep informed with forecasting techniques and develop an information system that produces forecasts that are as accurate as they possibly can be.

Because the business community lacks a format of forecast presentation that will reduce misinterpretation and liability, many proposals have been presented. The SEC said they would attempt to reduce the potential liability accompanying published forecasts by creating the procedures and system of reporting and formulating rules that would assume that the forecast is not a promise and inaccuracy doesn't necessarily mean its misleading.[8]

To lend a hand to the SEC proposals the Management Advisory Services Task Force of the American Institute of Certified Public Accountants suggested some general guidelines CPAs should follow when helping management prepare a forecast. They are as follows:

1. A financial forecasting system should provide a means for management to determine what it considers to be the single most probable forecasted result.

2. The accounting principles used in the preparation of a financial forecast should be those which are expected to be used when the events and transactions envisioned in the forecast will be recorded in financial statements.

3. Financial forecasts should be prepared with appropriate care by qualified personnel.

4. A financial forecasting system should provide for seeking out the best information available at the time.

5. The information used in preparing a financial forecast should reflect the plans of the enterprise.

6. The assumptions utilized in preparing a financial forecast should be reasonable and appropriate and be suitably supported.

7. The financial forecasting system should provide the means to determine the relative effect of variations in the major underlying assumptions.

8. A financial forecasting system should provide adequate documentation of both the forecast and the forecasting process.

9. A financial forecasting system should include the regular comparison of the forecast with attained results.

10. The preparation of a financial forecast should include adequate review and approval by management at the appropriate levels.[9]

Henry B. Reiling and John C. Burton were among others to propose financial disclosure rules. They were as follows:

1. The forecast should be clearly differentiated from historical data, and particularly from financial statements.

2. The forecast should be frequently updated to make users promptly aware of changing plans and circumstances.

3. Periodic updating should include an explanation of variances between historical and forecast data and between original and revised projections.

4. A forecast should be accompanied by a statement of the major economic and operating assumptions underlying its preparation.

5. The statement of assumptions should include quantitative information as to the sensitivity of the forecast to each assumption.

6. To permit different presentations dictated by varying circumstances, the format of the forecast should not be rigidly specified.

7. Presentation of forecast data should be mandatory, not optional.[10]

Reiling and Burton's proposal was different from the others in that a survey was taken to determine the reaction to their suggestions. Vincent Brenner, Robert Strawser, and James Benjamin randomly surveyed 200 controllers of Fortune 500 firms, 200 CPAs, and 200 chartered financial analysts. The response rate was 42% with the following results arrived at:[11]

Question I. The forecast should be clearly differentiated from historical data and particularly from financial statements.

	Controllers		CPAs		CFAs	
	No.	%	No.	%	No.	%
Strongly agree	65	70.7	67	77.9	48	64.9
Agree.	22	23.9	16	18.6	25	33.8
Disagree	4	4.3	2	2.3	1	1.3
Strongly Disagree. . . .	1	1.1	1	1.2	0	0.0
	92	100.0	86	100.0	74	100.0

Question II. The forecast should be frequently updated to make users promptly aware of changing plans and circumstances.

	Controllers		CPAs		CFAs	
	No.	%	No.	%	No.	%
Strongly agree	26	28.3	31	36.0	34	45.9
Agree.	37	40.2	44	51.2	30	40.5
Disagree	23	25.0	8	9.3	9	12.2
Strongly disagree. . . .	6	6.5	3	3.5	1	1.4
	92	100.0	86	100.0	74	100.0

Question III. Periodic updating should include an explanation of variances between historical and forecast data and between original and revised projections.

	Controllers		CPAs		CFAs	
	No.	%	No.	%	No.	%
Strongly agree	11	12.0	22	25.6	30	40.5
Agree.	51	55.4	50	58.1	38	51.4
Disagree	20	21.7	10	11.6	6	8.1
Strongly disagree. . . .	10	10.9	4	4.7	0	0.0
	92	100.0	86	100.0	74	100.0

Question IV. A forecast should be accompanied by a statement of the major economic and operating assumptions underlying its preparation.

	Controllers		CPAs		CFAs	
	No.	%	No.	%	No.	%
Strongly agree.	17	18.5	37	43.0	37	50.0
Agree.	55	59.8	41	47.7	36	48.6
Disagree	16	17.4	7	8.1	0	0.0
Strongly disagree. . . .	4	4.3	1	1.2	1	1.4
	92	100.0	86	100.0	74	100.0

Question V. The statement of assumptions should include quantitative information as to the sensitivity of the forecast to each assumption.

	Controllers No.	Controllers %	CPAs No.	CPAs %	CFAs No.	CFAs %
Strongly agree	4	4.3	15	17.4	12	16.2
Agree.	37	40.2	39	45.3	36	48.7
Disagree	33	35.9	27	31.4	22	29.7
Strongly disagree. . . .	18	19.6	5	5.9	4	5.4
	92	100.0	86	100.0	74	100.0

Question VI. To permit different presentations dictated by varying circumstances, the format of the forecast should not be rigidly specified.

	Controllers No.	Controllers %	CPAs No.	CPAs %	CFAs No.	CFAs %
Strongly agree	34	37.0	13	15.1	16	21.6
Agree.	42	45.7	50	58.1	46	62.2
Disagree	14	15.2	14	16.3	11	14.8
Strongly disagree. . . .	2	2.1	9	10.5	1	1.4
	92	100.0	86	100.0	74	100.0

Question VII. Presentation of forecast data should be mandatory, not optional.

	Controllers No.	Controllers %	CPAs No.	CPAs %	CFAs No.	CFAs %
Strongly agree	3	3.2	10	11.6	10	13.5
Agree.	10	10.9	15	17.4	15	20.3
Disagree	25	27.2	35	40.7	26	35.1
Strongly disagree. . . .	54	58.7	26	30.3	23	31.1
	92	100.0	86	100.0	74	100.0

It is interesting to note that the controllers generally agree or strongly agree with all of Reiling and Burton's rules with the exception of rule five and rule seven. Of the controllers responding 58.7% strongly disagree that publishing forecasts should be mandatory. They also didn't agree that the degree of sensitivity or each assumption and the reasons for the sensitivity should be disclosed.

It appears then that management is reluctant to make public forecasted information. The most common argument for such a stand is that the forecast will be misinterpreted and increase potential lawsuits. If forced to disclose, management's reasons for nondisclosure do not appear to change. In fact several new arguments for nondisclosure are added to those already existing. One argument for nondisclosure proposed by required publication was that the sensitivity of assumptions cannot be examined and presented either because they are too numerous or because they would disclose information that would damage the business.[12] In any case whether disclosing forecasts was optional or required, the majority of management was not in favor of disclosure of financial forecasts to the public.

ENDNOTES

[1]D. R. Carmichael, "The Assurance Function: Auditing at the Crossroads," Journal of Accountancy, September 1974, p. 66.

[2]Glenda E. Reid, "Financial Statements Forecasting Quantitative Data," Women CPA, October 1974, p. 24.

[3]William G. Brown, "Exploring Forecast Disclosure," Management Accounting, December 1974, p. 21.

[4]Reid, "Financial Statements Forecasting Quantitative Data," p. 23.

[5]Brown, "Exploring Forecast Disclosure," p. 20.

[6]Carpenter and Daily, "Controllers and CPA's: Two Views of Published Forecasts," Business Horizons, August 1974, pp. 75-77.

[7]Ibid., p. 75.

[8]Robert D. Poirier, "Financial Forecasts: To Disclose or Not to Disclose," Massachusetts CPA Review, September-October 1974, p. 6.

[9]News Report, "SEC," Journal of Accountancy, June 1974, p. 8.

[10]Benjamin, Brenner, Strawser, "Proposed Guidelines for Additional Corporate Disclosure," Lousiiana CPA, Fall 1974, p. 31.

[11]Ibid., pp. 32-35.

[12]Ibid., p. 35.

CHAPTER IV

OBJECTIONS OF CPAS TO FORECASTING

The SEC statements issued and the AICPA's Code of Professional Ethics should have put to rest any fears accountants had toward forecasts. The SEC said no third party verification of the forecast would be permitted, and Rule 204 of the Code of Professional Ethics states that no member's name can be associated with a forecast in order to vouch for its achievability.[1] These two positions should have put the CPAs' minds at ease concerning their future role in the publishing of financial forecasts. They did not do so. Realizing that the purpose of the forecast was to communicate management's estimate of future results, CPAs were concerned that they would be asked to examine the forecast and express an assurance on either the assumptions presented or the accuracy of math computations.[2] It was a known fact that of the chartered accountants in England and Wales it was required that "chartered accountants should report whether or not the forecasts are consistent with the given assumptions, economic, commercial, marketing and financial, which underlie them."[3] Even though no current provision required forecast review, its spector hung in the background.

One of the most convincing arguments that the CPA would soon be required to review and attest to the published forecast was the fact that state regulatory authorities in California, Michigan, and New Jersey had already established rules requiring CPAs to report on certain types of forecasts.[4] If forecast reporting was in the future of the

CPAs service rendering activities, they would have to provide for the future expansion of their services.

Attestation of financial statements is the function of the accounting profession. It is granted by the SEC and the state laws that certify accountants. It is an area of accounting practice that is close to a legally sanctioned monopoly in that no other profession is allowed to attest to historical financial statements. With the inclusion of financial forecasts in the financial statements came the possibility that the span of the monopoly would not expand along with the increased extension of the attest function. Thus, accountants were faced with the fact that they must provide for regulations and laws that would sanction the extending function to protect the monopoly they already maintained. If the accounting profession failed to provide for such a circumstance, perhaps some other group would.

In a survey of user reactions to CPA reports on forecasts conducted by John Corless and Corine Norgaard, several analysts stated that accountants were not competent to review forecast data.[5] This attitude was not only held by financial analysts, but also by company controllers and CPAs themselves. Charles Carpenter and Austin Daily contrasted the views of controllers and CPAs concerning published forecasts. Seventy-four percent of the CPAs surveyed did not believe that the audit report should include a reference to a forecast.[6] Fifty-eight percent also felt that CPAs generally did not possess the competence and proficiency to evaluate the assumptions in the forecast.[7] Perhaps the reason they felt this way can be illustrated with the fact that 87% of the CPAs responding felt that the standards of forecast preparation were not sufficiently defined to allow a CPA to be associated with a forecast.[8] These facts suggest that the CPA did not feel comfortable reviewing and reporting on a forecast because there were no guidelines, and until some definite guidelines were developed, accountants did not want to be associated with published financial forecasts. Therefore, if the sanctity of the attest function was to be protected in the light of potential required forecasts, some reporting standards and procedures had to be developed.

In trying to establish rules and guidelines for the preparing and reviewing of forecasted information, the existing auditing standards were examined. These standards were designed exclusively for application to audits of historical financial statements.[9] The current standards dictated that the CPA report as to the conformity of financial statements with Generally Accepted Accounting Principles. No such set of principles guided forecast reporting.[10] Therefore, if CPAs were to examine and report on forecasted data, new auditing standards would have to be developed or the present ones would have to be expanded.[11]

Expansion of the present auditing attest function was out of the question. The American Accounting Association's Committee on Basic Auditing Concepts stated that in order for the present auditing attest function to be expanded to forecasts, the forecasted data must have satisfied the following criteria:

> 1. The subject material must be susceptible to deduction of evidential assertions. They must be quantifiable and verifiable.
> 2. An information system must be present to record the actions or results thereof; and adequate internal controls should be operating.
> 3. Consensus must exist on the established criteria against which the information prepared from the subject matter can be evaluated.[12]

The preceding criteria creates many barriers to the extension of the attest function to forecasts, and as such the existing auditing standards could not be expanded to accommodate the needs accountants were trying to satisfy. New standards for the reviewing and reporting of forecasted data would have to be developed.

One suggestion for the new standards was to substitute a set of attest standards for the second and third standards of auditing field work and for all of the reporting standards. This meant the new auditing standards would consist of the following:

1. The three general standards of auditing
2. The first standard of field work
3. Basic standards for each specific attest function:
    a. financial statements
    b. special reports
    c. interior reports
    d. internal control
    e. efficiency of operations
    f. review of forecasts[13]

This suggestion in no way helped the situation. The idea was excellent, but the procedures and rules for each one of the specific attest functions were lacking. It gave to accountants no better understanding of what to do concerning forecasts than did the information that previously existed. Another suggestion by Bertrand J. Belda stated that the CPA who assists a client in preparing or reviewing published forecasts should issue a report disclosing the following:

1. the purpose of the forecast
2. the extent of the accountant's participation
3. the sources of information
4. the major assumptions
5. the extent of responsibility taken
6. a disclaimer regarding the reliability of the forecasts[14]

Belda's type of suggestion helped exceedingly to define specifics in establishing reporting and reviewing criteria for published financial forecasts. The accounting profession as a whole also had an idea of the criteria they wanted. In Carpenter and Daily's survey of controllers and CPAs, 61% of the CPAs favored presenting two or more years of annual forecasts along with actual results with 69% of the CPAs responding favoring a statement by management disclosing the reasons for the differences between forecasted and actual results.[15] In another attempt to obtain practitioner input into the development of reporting criteria, the AICPA appointed a Management Advisory Services Tasks Force and charged it with establishing guidelines in preparation of forecasts. The Management Advisory Executive Committee approved the results of the Task Force and published Management Advisory Services Guideline 3. This went a long way in defining the accountant's role in forecasts and helping him to understand it. With this publication, the problem of reporting guidelines seemed to be well under control, but it was just the tip of the iceberg. The solving of the problem concerning rules and guidelines enabled accountants to attempt to come to grips with the real problems. If forecasts were to be published, accountants were concerned about the misrepresentation of any attempt to report on the forecast, the potential loss of independence, and increased liability. In Asebrook and Carmichael's study on attitudes on forecasting, 48% of the AICPA respondents believed that the public would misinterpret the forecast.[16] If the investor misinterpreted the forecast, it seemed possible that he would misinterpret any report issued by the CPA concerning the forecast. In light of legal developments the deduction seemed to be logical. The 1136 Tenants' Corporation trial court held that a CPA was obliged to perform auditing procedures even in write up work, and he had a duty to detect defalcations.[17] This opinion was in opposition to existing auditing rules and procedures. It illustrated the fact that perhaps the public did not understand the function of the CPA.

To attempt to determine how a user would interpret a CPA's report on a forecast, John Corless and Corine Norgaard conducted a survey.[18] Questionnaires containing one of three types of reports a CPA might make on forecasted data were sent to users of financial reports. The types of reports used were:

> 1. Negative assurance. We have studied the projected statement of operations of the XYZ Company for the year ended December 31, 1972. Our study was conducted in accordance with applicable standards published by the American Institute of Certified Public Accountants. We performed such tests and procedures with respect to the compilation of the forecast from the stated assumptions as we considered necessary in the circumstances. However, assumptions as to future events must remain the sole responsibility of management. Our procedures with respect thereto were generally limited to those which accountants might reasonably employ and were chosen in order to appraise the care and consideration given to the selection of assumptions by management.
>
> On the basis of our study, we believe that the accompanying projected statement properly gives effect to the assumptions described, using generally accepted accounting principles. Further, nothing came to our attention as a result of our study that caused us to believe that such assumptions, which have been selected by management, do not constitute reasonable bases for the preparation of the estimated in the projected statement of operations. Since projections are predicated on the occurrence of future events which are subject to changes in economic and other circumstances, we express no opinion on the likelihood of their achievement.
>
> 2. Positive assurance. We have studied the projected statement of operations of the XYZ Company for the year ended December 31, 1972. Our study was conducted in accordance with applicable standards published by the American Institute of Certified Public Accountants. We performed such tests and procedures with respect to the compilation of the forecast from the stated assumptions as we considered necessary in the circumstances. However, assumptions as to future events must remain the sole responsibility of management. Our procedures with respect thereto were generally limited to those which accountants might reasonably employ and were chosen in order to appraise the care and consideration given to the selection of assumptions by management.
>
> On the basis of our study, we believe that the projected statement of operations gives effect to the assumptions described on the basis of accounting principles regularly employed by the company.

We believe that management has chosen the assumptions with due care and consideration. We express no opinion as to whether the projected statement may approximate actual future results.

3. A report similar to the one used in the United Kingdom. We have reviewed the accounting bases and calculations for the projected statement of operations of the XYZ Company for the year ended December 31, 1972 (for which the management is solely responsible). The forecasts include results shown by unaudited interim accounts for the period ended December 31, 1972. In our opinion, the forecasts, so far as the accounting bases and calculations are concerned, have been properly compiled on the basis of the assumptions made by management and are presented on a basis consistent with the accounting practices normally adopted by the company.[19]

The results of the respondents with no break down as to type of report received were as follows:

1. 64.6% believed the CPA had verified the computations in the forecast and 26.8% said they could not tell.
2. 89.2% said the CPA had not attested to the accuracy of the forecast, while 5.3% thought he had.
3. 51.7% couldn't determine if the historical data had been verified and 48.3% couldn't determine whether the CPA had verified the appropriateness of the statistical methods used.
4. 83% said the assumptions of the forecast were those of the management, and 76.6% thought that the CPA had reviewed the assumptions.
5. 97% stated that no one should be held responsible if actual results varied from forecasted data if the differences were due to unexpected events beyond the control of management.
6. With no unexpected events 10.1% thought management should be held responsible for variances, while 2.5% thought the CPA should be responsible. 79% said no one should be held responsible.[20]

The results seem to indicate that users of CPA reports on forecasts assume that regardless of the type of report, that the CPA reviewed the assumptions and verified the accuracy of the computations. The report styles tested did not seem to define and relate to the reader the role the CPA played in the preparation and review of the forecast. Thus, as with the Tenant's Corporation case, the study indicates that the role of the CPA in publishing forecasts is misunderstood, even when his role is explained in a report letter. This suggests that the fear of loss of independence was not unfounded.

The CPA is to be independent both in appearance and in fact. It is independence that supports his credibility in the attest function. The misunderstanding of his role in forecasting could lead to a misunderstanding as to his status concerning independence. A public suspicion as to the independence of the CPA would dilute his attest function, and negate the reason for his existence.[21] Corless and Norgaard's survey supported this contention in that 52.5% of the respondents felt that a CPA would feel extreme pressure to allow year end adjustments that would show actual results were consistent with previously issued forecast data.[22]

The existence of misinterpretation of a report on forecast and of the independence of the CPA issuing the report made the fear of increased liability very real. Many accountants were afraid that the recent legal actions concerning the attestation of historical financial statements would set the climate concerning a report on forecasted data. If a forecast was inaccurate, the CPA might become involved in a legal case where it would be difficult to defend himself because of the lack of tangible evidence concerning the assumptions of the forecast.

The suggestion that many accountants were preoccupied with increased liability was unwarranted. In a paper delivered to a study group on objectives of financial statements, David Herwitz stated that there was no common law liability ". . . where forecast is made in good faith, for proper purposes, actually represents the forecasts best estimate, and is prepared with reasonable care. . . ."[23] The SEC can bring an action against an accountant under Rule 10 B-5 of the 1934 Act. The rule states it is unlawful to engage in fraudulent, deceptive or misleading practices in the purchase or sale of securities. The Commission can also adopt rules of practice governing those who practice before it. Rule 2E is such a rule. It states that the Commission can deny permanently or temporarily the privilege of appearing or practicing before it. A third tool of the SEC is the injunction. It can be issued whenever the Commission feels the situation warrants it.[25]

The Commission promised to establish rules and regulations to define the preparation and reporting standards of all the individuals involved in forecasts. On April 28, 1975 they released their rules and regulations to the business community. Their proposals were not what the accounting community wanted to insure a degree of safety from the SEC's legal tools.

Arthur Andersen and Co. filed an answer to the SEC proposals and perhaps may have expressed the sentiment of a majority of the accounting profession. They said that while historical financial statements should assist the investor, the interpretation of the future was the responsibility of the investor. According to Arthur Andersen and Co., the preparation of the forecast should be limited to the investment advisor because it insures competent preparation. They suggested that rather than management predictions, a company's objectives and goals should be published because they are less likely to be misinterpreted. The suggestion is that a general statement of a firm's goals and objectives not subject to outside review should accompany the financial statements.[26]

ENDNOTES

[1]Robert D. Poirier, "Financial Forecasts: To Disclose or Not Disclose," Massachusetts CPA Review, September-October 1974, p. 11.

[2]D. R. Carmichael, "Financial Forecasts--The Potential Role of Independent CPAs," Journal of Accountancy, September 1974, p. 84.

[3]Elgers, Clark, and Speagle, "The Role of Assumptions in Financial Forecasts," Journal of Accountancy, July 1974, p. 63.

[4]Carmichael, "Financial Forecasts--The Potential Role of Independent CPAs," p. 84.

[5]Corless and Norgaard, "User Reactions to CPA Reports on Forecasts," Journal of Accountancy, August 1974, p. 49.

[6]Carpenter and Daily, "Controllers and CPAs: Two Views of Published Forecasts," Business Horizons, August 1974, p. 77.

[7]Ibid., p. 76.

[8]Ibid., p. 77.

[9]Bedingfield and Lubell, "Extension of the Attest Function to Published Forecasts--An Opinion Survey," CPA Journal, January 1974, p. 40.

[10]Ibid., p. 41.

[11]Ernest L. Hicks, "Standards for the Attest Function," Journal of Accountancy, August 1974, p. 41.

[12]D. R. Carmichael, "The Assurance Function: Auditing at the Crossroads," Journal of Accountancy, September 1974, p. 67.

[13]Hicks, "Standards for the Attest Function," pp. 43-44.

[14]Glenda E. Reid, "Financial Statements Forecasting Quantitative Data," Women CPA, October 1974, p. 25.

[15]Carpenter and Daily, "Controllers and CPAs: Two Views of Published Forecasts," p. 74.

[16]William G. Brown, "Exploring Forecast Disclosure," Management Accounting, December 1974, p. 21.

[17]Bedingfield and Lubell, "Extension of the Attest Function to Published Forecasts--An Opinion Survey," p. 44.

[18]Corless and Norgaard, "User Reactions to CPA Reports on Forecasts," p. 46.

[19]Ibid., pp. 47-48.

[20]Ibid., pp. 49-52.

[21] Bedingfield and Lubell, "Extension of the Attest Function to Published Forecasts--An Opinion Survey," p. 44.

[22] Corless and Norgaard, "User Reactions to CPA Reports on Forecasts," p. 52.

[23] David R. Herwitz, Objectives of Financial Statements (New York: AICPA, 1974), p. 269.

[24] Arthur Andersen and Co., Comments to the Securities and Exchange Commission (Release No. 33-5581, File No. 57-561, 1975), p. 29.

[25] A. A. Sommers, "Accountants Flexible Standard," Journal of Accountancy, December 1974, pp. 77-78.

[26] Arthur Andersen and Co., Comments to the Securities and Exchange Commission, p. 29.

CHAPTER V

SUMMARY

In 1973 the Securities and Exchange Commission changed its position concerning published financial forecasts. After a period of not allowing financial forecasts to be published with other registration statements, it allowed companies that met certain requirements to publish forecasts on a voluntary basis. The purpose of this change was to insure that investors had every advantage in making investment decisions. Previously, forecasted data had been inside information available to only a selected few individuals. The SEC tried to give investors a benefit by permitting free access to forecasted information. Not everyone saw its action in this light.

To management, voluntary publishing of financial forecasts now meant required publishing in the future. They were not against giving forecasted information to investors. What they were against was giving privileged information needed to make the forecast more meaningful to the investor. It would not only make the forecast more meaningful; it could also give away a company's competitive edge in its related industry. On the other hand, if the information would not be disclosed, the forecast could be misinterpreted. This in turn could lead to potential lawsuits and increased liability. The concern of management was that the costs of the possible disadvantages far outweighed the benefits of the advantages.

CPAs were also concerned about the future. Currently, the SEC required no third party review of the forecasted data. Accountants anticipated an extension of the historical financial statement attest function to forecasted data. If this was the case they would have to provide new review and reporting criteria and standards, because the current attest function could not be extended without new guidelines being developed. If accountants did not develop new guidelines they could possibly lose the existing attest function monopoly. If they did develop new criteria, perhaps the public would misinterpret the accountant's role. This would cause increased liability and potential loss of independence.

Both of the accountant's and manager's fears were fed by the results of studies that had been conducted. The results showed the common investor expected a degree of accuracy in forecasts that simply could not be achieved. The forecast is a prediction using the unknown as a basis to support an explanation of a potential happening. As such, only the removal of the risk of investment could make the forecast 100% accurate.

Perhaps the negative response to the Commission's reporting proposals made them realize that until 100% accuracy could be guaranteed, the remaining objections could not be solved. The removal of risk by the Commission was impossible. With the reversal of its 1973 position on forecasts, the SEC acknowledged the fact that in some cases rules and regulations are dictated by the inherent limitations and not by the Securities and Exchange Commission.

APPENDIX B

TABLE 1

USERS' CONFIDENCE IN FORECAST ON WHICH THE CPA REPORTED

Confidence in Forecast on which CPA Reported	Compared with a Forecast: Not Accompanied by a CPA's Report	Compared with a Forecast: Prepared by Financial Analysts
Less confidence	4.9%	18.1%
Equal confidence	36.8	39.6
Slightly more confidence	49.2	34.1
Much greater confidence	9.1	8.2

TABLE 2

FORECAST COMPARED WITH AUDITED FINANCIAL STATEMENTS

Confidence in Forecast on which CPA Reported	M.B.A. Students	Analysts	All Respondents
Equal confidence	26.3%	10.9%	14.2%
Almost as much confidence	16.2	6.7	8.8
Less confidence	41.2	33.0	34.8
Much less confidence	16.3	46.7	40.0
No confidence	0	2.7	2.2

TABLE 3

REVIEW OF UNDERLYING ASSUMPTIONS

Type of CPA's Report Response	U.K. Style	Positive Assurance	Negative Assurance	All Report Styles
CPA did not review assumptions:				
a. Ignored assumptions	6.4%	0%	0%	2.0%
b. Read assumptions but made no judgment	36.4	11.8	17.6	21.4
Total	42.8	11.8	17.6	23.4
CPA reviewed assumptions:				
c. Made a cursory review for inconsistencies	27.2	37.0	37.0	33.9
d. Made a thorough review	30.0	50.3	45.4	42.4
e. Reviewed and approved the assumptions	0	.9	0	.3
Total	57.2	88.2	82.4	76.6

TABLE 4

RESPONSIBILITIES ASSUMED BY THE CPA (IN PERCENTAGES)

Type of CPA's Report	U.K. Style			Positive Assurance			Negative Assurance		
Assumed Responsibilities	Yes	No	Cannot Determine	Yes	No	Cannot Determine	Yes	No	Cannot Determine
Verified historical data underlying forecast	36.8	21.6	41.3	26.2	22.3	51.5	34.5	12.1	53.4
Verified the appropriateness of the statistical techniques	15.7	40.0	44.3	23.1	23.1	53.8	27.4	26.5	46.1
Verified the accuracy of computations	78.3	2.6	19.1	57.7	13.1	29.2	59.0	9.4	31.6
Attested to the accuracy of the forecast	2.6	90.4	7.0	4.7	90.6	4.7	8.5	85.5	6.0

SOURCE: Corless and Norgaard, "User Reactions to CPA Reports on Forecasts," Journal of Accountancy, August 1974, pp. 48-51.

SELECTED BIBLIOGRAPHY

Accountants International Study Group. Published Profit Forecasts. New York: Newport Press, Inc., 1974.

Arthur Andersen & Co. Comments to SEC. Release No. 33-5581, File No. 57-561, 1975.

Barrett, Michael J., and Ricketts, Donald E. "Corporate Operating Income Forecasting Ability." Financial Management, Summer 1973, pp. 53-62.

Bedingfield, James P., and Lubell, Myron S. "Extension of the Attest Function to Published Forecasts--An Opinion Survey." CPA Journal 44 (January 1974):40-1, 44-5.

Benjamin, James B.; Brenner, Vincent C.; and Strawser, Robert H. "Proposed Guidelines for Additional Corporate Disclosure." Louisiana CPA, Fall 1974, pp. 30-7.

Blum, James D., and Chadwick, Lester W. "Accounting Educators Views on Financial Forecasting." CPA Journal 44 (March 1974):15-16.

Brown, William G. "Exploring Forecast Disclosure." Management Accounting, December 1974, pp. 19-22.

Carmichael, Douglas R. "The Assurance Function--Auditing at the Crossroads." Journal of Accountancy 138 (September 1974):64-72.

________. "Financial Forecasts--The Potential Role of Independent CPAs." Journal of Accountancy 138 (September 1974):84-86.

Carpenter, Charles G., and Daily, R. Austin. "Controllers and CPAs: Two Views of Published Forecasts." Business Horizons, August 1974, pp. 73-78.

Clark, John J.; Elgers, Pieter; and Speagle, Richard E. "The Role of Assumptions in Financial Forecasts." Journal of Accountancy 138 (July 1974):63-67.

Corless, John C., and Norgaard, Corine T. "User Reactions to CPA Reports on Forecasts." Journal of Accountancy 138 (September 1974):46-54.

Herwitz, David R. Objectives of Financial Statements. New York: AICPA, 1974.

Hicks, Ernest L. "Standards for the Attest Function." Journal of Accountancy 138 (August 1974):39-45.

Johnson, Keith. "One Company's Forecasting." CPA Journal 44 (September 1974):47-49.

Killough, Larry N. "An Argument for Published Forecasted Financial Data." National Public Accountant, December 1973, pp. 15-17.

News Report, "SEC." Journal of Accountancy 139 (June 1975):12.

News Report, "SEC." Journal of Accountancy 141 (May 1976):11.

Nichols, Donald R., and Parker James E. "To Forecast or Not to Forecast." Managerial Planning, January-February 1975, pp. 6-9, 16.

Nickerson, Charles A.; Pointer, Larry G.; and Strawser, Robert H. "Published Forecasts: Choice of Obligation." Financial Executive, February 1974, pp. 70-3.

Poirier, Robert D. "Financial Forecasts: To Disclose or Not to Disclose." Massachusetts CPA Review, September-October 1974, pp. 6-8, 10-13.

Reid, Glenda E. "Financial Statements Forecasting Quantitative Data." Women CPA, October 1974, pp. 23-25.

Schachner, Leopold. "Published Forecasts and Internal Budgets." CPA Journal 45 (January 1975):19-24.

Sellers, James H. "Forecasting Controversy: A Review." National Public Accountant, November 1974, pp. 17-21.

Sommer, A. A. "Accountants: A Flexible Standard." Journal of Accountancy 138 (December 1974):76-80.