ABSTRACTS OF DOCTORAL DISSERTATIONS

THE DEVELOPMENT OF A GENERAL QUASI-REORGANIZATION CONCEPT*

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THIS DISSERTATION is a study of a procedure, entitled a "quasi-reorganization," whereby a continuing enterprise could establish a new basis of accountability for its financial statements without formal court proceedings or creation of a new legal entity. The significance of the study arises from an increased recognition of the limitations inherent in current generally accepted accounting principles and the need to consider alternative proposals to provide flexibility rather than a rigid adherence to a historical cost basis. The purposes of the study are: (1) to develop a general quasi-reorganization concept for all conditions which might lead to a change in basis of accountability; (2) to present alternative standards and procedures and to indicate those most consistent with the general concept; (3) to provide an adequate basis for interested parties to appraise the relative advantages and limitations of the concept as well as the inherent problems in effecting it.

A review of the accounting literature and corporate statements related to the write-up movement of the 1920's and the write-down movement of the 1930's provided a historical perspective of the objectionable reporting in these periods and a basis for the proposal of improved procedures. The development of a limited quasi-reorganization procedure by the American Institute of Accountants and the Securities and Exchange Commission, likewise, was discussed as an antecedent of the general concept.

The development of the general concept and the related standards and procedures was divided into asset and equity phases. The subsequent determination of income was included within the discussion of the equity accounts. The presentation of asset accounts included the following: a definition of an asset for accounting purposes; alternative value concepts; a proposed value concept; valuation pro-

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cedures to implement the value concept; the resources to be revalued; the specific asset restatements; and adequate disclosures. The presentation of equity accounts included the following: the nature and significance of equity representations; existing authoritative equity reporting principles; corporation code provisions; income tax laws; requirement of stockholder consent; accounting for subsequent transactions with equity holders; and disclosures in financial reports.

It was proposed that an "investment accountability" be established for all values intrusted to management. This required determination of total enterprise value. An "income accountability" would be attained by valuation of specific assets in accordance with a "going-concern replacement cost basis" which would provide for consistent subsequent income determination as well as comparability with the reporting of competitors. A resulting differential valuation would be recognized and amortized against income. It was proposed that all creditor and stockholder interests be valued and classified as contributed capital. A new dated retained-income account would be initiated. Subsequent interest charges and income taxes would be computed consistently with the restated asset and equity accounts.

The proposed general concept is a composite of a group of standards encompassing a complete change in basis of accountability. Even though the general concept may not attain widespread acceptability for application in its entirety, it provides a basis for judgment of the significance of alternative procedures. Further, the concept is deemed to have significance in other areas wherein a revised basis of accountability is proposed. The writer concludes that procedures based upon the general quasi-reorganization concept would elicit widespread agreement among interested parties and become eligible for admittance to the body of generally accepted accounting principles.