

Abstract

A Christian Perspective on the Response of the Accounting Profession to the Terrorist Attacks of September 11, 2001

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FASB's EITF discussion of the impact of terrorist attacks on businesses' financial reporting

On September 20, 2001, during a regularly scheduled meeting of the EITF, the financial reporting implications of the September 11 terrorist acts were discussed. It appears that the task force was at first reluctant to discuss accounting related aspects of the terrorist acts. The EITF Chairman stated:

We all would prefer that these issues be deferred until matters much more important than accounting are dealt with, but we believe the conclusions reached by the task force yesterday will be helpful in achieving useful financial reporting

guidance and will avoid the need for each reporting team to face these difficult issues on its own (FASB news release 9/21/01).

The task force believed that with the terrorist acts occurring so near to the close of the third quarter many companies would have questions regarding the appropriate reporting of the events. The task force therefore felt that an expeditious response was called for.

The task force identified three issues as being immediately critical to the proper accounting of the events. First, a decision must be reached on how losses or other costs caused by the incident should be reported in financial statements. Second, it must be decided in what period those losses or costs should be recognized. And third what, if any, other information about the economic effects of the incident should be provided in financial statements. At the September 20, 2001 meeting it was tentatively agreed that many of the losses resulting from the events of September 11 should be classified as extraordinary on financial statements. Further, the EITF tentatively agreed that “liabilities and related losses generally should not be recognized until there is an obligation to the payee, but that qualifying losses should be classified as extraordinary even if they are incurred in subsequent periods” (FASB news release 09/21/01). A draft of the tentative conclusions reached concerning the terrorist acts was posted on the FASB’s website on September 26, 2001.

The September 20th meeting was continued on September 28th. At this meeting the EITF reached consensus on accounting issues related to the September 11 terrorist acts. The conclusions reached on the 28th differed greatly from those of the 20th. The EITF reversed its earlier position that extraordinary treatment of losses related to September 11 was appropriate and now ruled that labeling the effects of the terrorist acts

extraordinary would not be an effective way to communicate the financial effects of those events. A concern that was present in much of the EITF's discussion relates to the ability of businesses to properly identify the losses that were directly related to the terrorist acts. The EITF noted that the "economic effects of the events were so extensive and pervasive that it would be impossible to capture them in any one financial statement line item" (FASB news release 10/01/01). There was also concern that there would be such a variation in the way businesses calculated the extraordinary item that the comparability of financial information across businesses would be greatly reduced.

In order for the EITF to reach a consensus, 11 of its 13 members must reach agreement. Although this was accomplished, the minutes of the meeting note many concerns raised by some of the task force members. For example, task force members expressed mixed views about whether losses incurred from the September 11 events met the APB Opinion 30 criteria to be classified as an extraordinary item. Some members believed that none of the losses met the Opinion 30 criteria because although the events were unusual in nature for most businesses, for many businesses the events did not meet the infrequency of occurrence criterion specified in Opinion 30. These members felt that it was the severity of September 11 that set it apart from other events, and yet "based on the guidance in Opinion 30, the magnitude of an event has no bearing on whether the related losses and costs are classified as an extraordinary item" (September 20 and 28, 2001 EITF Meeting Minutes, p. 3). At the same time, other members of the task force felt that the enormity of the September events was an inseparable dimension of the analysis of the events. These members believed that the number of entities involved, the unprecedented federal ground stop order that suspended air travel, and the magnitude of

the losses incurred, indicated that “the September 11 events are of a type not reasonable expected to recur in the foreseeable future and that at least some of the losses and costs incurred as a result of those events qualify for classification as an extraordinary item in the statement of operations” (p. 3). Ultimately, the task force concluded that whether or not the event itself was viewed as extraordinary, the objective of Opinion 30, which is to improve the quality of financial information, would not be achieved by treating the losses related to the terrorist acts as extraordinary. It was also noted by the task force that for many businesses the most significant financial impact of the terrorist acts might be lost or reduced revenues. Opinion 30 does not include any estimate of lost or reduced revenues in its measurement of extraordinary items.

Between the times of the two EITF meetings, on September 22, President Bush signed the Air Transportation Safety and System Stabilization Act (the Act). The Act recognized that the air transportation industry had experienced, and would continue to experience, tremendous losses related to the terrorist attacks. It also recognized the importance, to the country as a whole, of a strong and dependable air transportation system. Therefore the Act provided compensation to air carriers for direct and incremental losses incurred during the period from September 11, 2001 to December 31, 2001. The Act specified that each air carrier was “entitled to receive the lesser of its direct and incremental losses for the period or its allocation of the aggregate compensation available under the Act” (September 20 and 28, 2001 EITF Meeting Minutes, p.1). In response to the Act, the EITF recommended that “federal assistance provided to air carriers in the form of direct compensation under the Act should be classified as part of income from continuing operations” (p. 6). Further, the EITF

recommended that federal assistance received by air carriers should be reported gross (not netted against September 11 losses) as a separate line item or in other nonoperating income on the statement of operations.

The EITF's actions appear to be driven by a desire to communicate the financial impact of the terrorist acts in as unambiguous a manner as possible. As the minutes reflect, their decision ultimately rested not on whether the events themselves qualified as extraordinary, but rather on the related communication objective of Opinion 30. The deliberations of the task force following the terrorist acts highlight the importance of viewing accounting as an interpretive art. Stewart (1995) notes that accountants develop meaning from data and that the creation of meaning necessarily requires a moral agent since meaning can only be created in community. Stewart recognizes accounting as an interpretive art and suggests that the accountant does not provide information that should be uncontested; the accountant does not reveal a pre-existing reality. By placing accounting practice in a social context Stewart is able to argue that social responsibility and concern for the common good must be integrated into the work of accountants. Ultimately, the meaning accountants assign to information shapes the world we live in, and because of this, accountants' responsibility to God should not be minimized.

The actions of the EITF during September 2001 appear to uphold the biblical principles of servant leadership and accountability to God. The task force focused its attention on service to society, and placed the needs of the affected businesses and financial statement users before its own. The importance of the guidance provided by the EITF, and how it was implemented, can be observed in the financial statements of two businesses directly impacted by the events of September 11. United Airlines and

American Airlines both suffered direct losses of personnel, customers and equipment on that day.

Recognition of terrorist acts in the financial statements of United Airlines and American Airlines

The impact of the terrorist acts can be seen throughout United Airlines' 2001 annual report. In the chairman's letter to stockholders, the tone used by John Creighton is remarkably personal. In his letter, Creighton states that the company continues to "mourn the loss of our employees and passengers who were on board United Airlines' Flights 93 and 175, as well as the many other victims of the day's tragedies – and we continue to hold their families and loved ones close in our hearts" (UAL Corporation 2001 Annual Report, p. 2). He discusses the amazing resilience of United's employees and also the combination of strength and warmth that they have demonstrated with customers and co-workers alike. Creighton also makes clear in his letter that United Airlines will need to engage in tremendous cost-cutting efforts if it is to return to profitability. United Airlines' losses for 2001 totaled \$2.1 billion, with the third quarter's loss accounting for over half the year's loss.

The events of September 11 are recounted in the 2001 annual report, with specific details of the impact on the air transportation industry provided. The FAA ordered grounding of all aircraft had a dramatic impact on United's operations. United notes that the grounding "effectively lasted for three days and the Company was able to operate only a portion of its scheduled flights for several days thereafter... the Company refunded significant numbers of tickets for the period from September 11 to September 25" (UAL Corporation 2001 Annual Report, p. 8). In total, United estimates that the

terrorist attacks lowered the Company's revenues by approximately \$1.7 billion (p. 9). In response to the tremendous downturn in air travel since the terrorist attacks, United has reduced its capacity by more than 20%. As a result of the reduced demand for capacity, United has had to emphasize cost reduction strategies in key areas, including personnel and aircraft expenditures. During the fourth quarter of 2001, United began the process of furloughing approximately 20,000 employees across all work areas. As a result of the furloughs, United accrued severance costs of approximately \$217 million in 2001. In the area of aircrafts, United restructured its aircraft delivery plan with both Boeing and Airbus to defer deliveries of 25 aircraft for 2002 and all of the 18 aircraft scheduled for delivery in 2003. As a result of these deferrals, United hopes to reduce capital spending for 2002 by 50%, or \$1.2 billion (p. 8).

United anticipates that its liability from claims relating to the events of September 11 will be significant. However, United expects that it has adequate insurance coverage to meet these claims and also believes that the Air Transportation Safety and System Stabilization Act will cause its exposure to claims to be limited to the amount of its insurance coverage. Naturally as a result of these claims, and the changed political climate, United has experienced significant increases in its insurance premiums, and has also suffered decreases in the amount of coverage. As of December 31, 2001 United had received \$652 million in compensation from the Air Stabilization Act. United recorded this amount as non-operating income. United also detailed a special charge of \$1.3 billion in operating expenses for amounts relating to the September attacks. The special charge included the following items (United Airlines 2001 annual report, p. 29):

	<u>Amount</u>
Aircraft groundings and impairments	\$ 788
Reduction in force	217
Early termination fees	181
Discontinued capital projects	107
Miscellaneous	<u>20</u>
Total Operating Special Charge	<u>\$1,313</u>

In contrast to United's reporting of the terrorist acts, American Airlines reported the acts as a special charge, net of the Air Stabilization Grant. The net effect was a loss of \$610 million, after deducting the Grant of \$856 million. The American Airlines annual report echoes many of the same experiences that were recorded in United Airlines' report. American chose to defer 35 of the 45 firm 2002 deliveries of aircraft until sometime after 2003. Similar to United, American reduced its workforce by approximately 20,000 positions (American Airlines Annual Report, p. 1). In the notes to the financial statements American detailed the special charge as follows (p. 21):

	<u>Amount</u>
Aircraft charges	\$1,237
Facility exit costs	115
Employee charges	71
Other	<u>43</u>
Total Operating Special Charge	<u>\$1,466</u>

It is clear from the financial statements of both companies that the effects of the terrorist acts continue to threaten the very existence of both companies, and that they will never again be able to conduct business as usual. Responding to the financial reporting needs of companies affected by the terrorist acts is just one of the many difficult issues that the accounting profession has confronted in its recent past. In a letter to AICPA members discussing the impact of Enron's collapse on the accounting profession, James Castellano and Barry Melancon noted that the accounting profession enjoys a sacred

public trust and for over a hundred years has served the public interest through its work. The accounting profession has long regarded itself as a profession committed to ethical behavior. However, the profession's code of ethics has always been more concerned with the relationship between the individual accountant and the accounting association, or between the individual accountant and the client. The relationship between the profession and society as a whole has often been relegated to the background. This appears to be in conflict with a Christian perspective on accounting that encourages accountants to actively contemplate how their profession and their faith in God interact with their personal and public lives. The actions taken by the profession following the September terrorist attacks appear to represent a commitment on the part of the profession to focus on the needs of society, and through these efforts the profession has been able to agree upon a method of financial disclosure that serves God's kingdom.

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Lynn has taught accounting for 13 years at Trinity Christian College, in Palos Heights, IL. Recently, she has also worked as an adjunct prof. for an on-line educational program. Before her teaching career, Lynn worked as a litigation financial consultant for Peterson & Co. in Chicago. She received her Masters in Accounting Science from University of Illinois at Champaign and her Ph.D. in Business from the University of Illinois at Chicago.