

2-1929

## Editorial

A. P. Richardson

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

---

### Recommended Citation

Richardson, A. P. (1929) "Editorial," *Journal of Accountancy*. Vol. 47 : Iss. 2 , Article 5.

Available at: <https://egrove.olemiss.edu/jofa/vol47/iss2/5>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# *The* JOURNAL of ACCOUNTANCY

*Official Organ of the* AMERICAN INSTITUTE OF ACCOUNTANTS

---

---

A. P. RICHARDSON, *Editor*

---

---

## EDITORIAL

### The Plural Prerogative

An accountant practising individually has written to ask for an expression of opinion as to the propriety of the use of the plural personal pronoun in his certificates, correspondence, etc. He wishes to know whether it is proper for him to describe himself as "we" or as "I." Well, that is largely a matter of opinion. There may be some occult reason for describing oneself as two or more, but it is not easily discovered. What might be called the plural singular is generally acknowledged to be an attribute of royalty and the editorial function. Editors and kings speak in a sense from the fane and no one may reply, at least immediately. For some reason, which no one can quite explain, these two classes of men have assumed the right to speak as though they were more than they are. Perhaps royalty in the use of the plural labors under the impression that what the monarch says is the voice of the people and, therefore, it is not one who speaks, but a multitude. Parenthetically it may be said that the multitude might not agree with this theory, but it is only lately that the multitude has counted for anything. Editors have always been free from any taint of diffidence, and the use of the plural in their case is intended to convey to the gullible public the impression that when the editor speaks he speaks with the voice of all the editorial office with him. Indeed, it used to be so. There was a time in the golden age of journalism when a group of men would gather to discuss the questions of the day, present their individual views and, after an agreement as to the policy to be expressed, would delegate one of their number to write the opinion of the court. This practice still prevails in a few offices. There is a powerful weekly publication in Great Britain whose opinions are only expressed after prolonged conference and a careful weighing of the arguments for and against. The conferences which cul-

minate in the final editorial notes are delightful and generally inspiring. One who has been privileged to attend the luncheons at which the discussions take place will not readily forget the blended solemnity and gaiety which characterize the whole debate, and one feels instinctively that when the opinions are expressed they justify the use of the plural pronoun.

**The Accountant  
Is Different**

But an accountant is neither king nor editor. When he speaks in the plural he tells the world that he and his partners are speaking. If he has no partners, is he not guilty of double dealing—in a double sense? Sometimes when an editor writes in the plural he may know in his own mind that his voice is less than the voice of one. He may be not even expressing his personal opinion, but merely what he thinks someone else should think. When an accountant adopts plurality—or should we say duplicity?—he may deceive himself, but he does not deceive the public. How ridiculous it seems for one young, possibly able, but certainly impecunious person to write oracularly “In our opinion.” A blunt and unkind citizen might remark that the use of the pronoun “we” in some cases seems to be merely a condensed “wee”—an adjective. But really, why should one pretend to be two people? Is not one person good? Why then attempt a factitious plurality? It may not be precisely apropos, but it certainly has a bearing upon the case to quote the first rule of professional conduct adopted by the American Institute of Accountants:

“A firm or partnership, all the individual members of which are members of the Institute (or in part members and in part associates, provided all the members of the firm are either members or associates), may describe itself as ‘Members of the American Institute of Accountants,’ but a firm or partnership, all the individual members of which are not members of the Institute (or in part members and in part associates), or an individual practising under a style denoting a partnership when in fact there be no partner or partners or a corporation or an individual or individuals practising under a style denoting a corporate organization shall not use the designation ‘Members (or Associates) of the American Institute of Accountants.’”

It will be noted in the foregoing quotation that a person practising under a style denoting a partnership, when in fact there be no partner or partners, may not describe himself as members of the Institute. This rule seems by inference to condemn what we have called the plural singular. No sane man is deceived by plurals. Everyone remembers the old story of the editor of

the *Skipperen Eagle* who said, "We are now about to give Bismarck hell." How the iron chancellor must have quaked in his shiny boots to hear that awful "we"—if he happened to hear it. Of course, if X and Y are in partnership they must not speak jointly in the singular. It is perhaps rather a pity that we lack a distinctive dual number such as added to our distress in the Greek hours at school. Sometimes English seems distinctly inferior and ill-furnished. But X or Y by himself can look only absurd when he tries to be more than he is. Furthermore, the plural, when there be in truth singular only, is deceptive in intent. It is only a monarch or an editor who may arrogate to himself multiplicity of personality—

If I were a king or an editor,  
I'd be what I am, but I'd sound like more.

**Verification of  
Inventories**

There is no subject at present before the accounting profession which receives more consideration than the accountant's duty and responsibility with reference to verification of the count and valuation of merchandise inventories. We have discussed the question editorially in this magazine; every periodical published which has the slightest interest in accountancy and some which have not devote space from time to time to a discussion of this question; nearly every meeting of accountants finds reference to inventory somewhere on its programme. The increasing interest in the topic is doubtless due to the growing opinion that unless the accountant is awake and aware he may be brought gradually into a position which he can not occupy with honesty and credit. We believe, of course, that the accountant should go as far as he can go in the verification of inventory figures, but there are clients and bankers who would place upon the shoulders of the accountant the full burden of responsibility for absolute accuracy in the records of quantity and quality of inventory. This question was discussed in the December issue of *THE JOURNAL OF ACCOUNTANCY* by Maurice E. Peloubet and his remarks have been quoted in many subsequent discussions. Among the letters which have been received in this office is one from Henry D. Love, a member of the Institute in Massachusetts. Upon receipt of Mr. Love's letter we forwarded it to Mr. Peloubet with a request that he reply, and we have now received permission

to publish the correspondence as a contribution to the current literature on the subject of inventories. Mr. Love writes:

"I have read with interest the reprint in the December number of THE JOURNAL OF ACCOUNTANCY of the address delivered at a meeting of the New York State Society of Certified Public Accountants, New York, October 23, 1928, by Mr. Maurice E. Peloubet on inventories and the auditor.

"Reference is made to the first sentence of paragraph 2 of the reprint appearing on page 425 of the JOURNAL which says: 'To sum up, accountants should and can, in all but the most exceptional cases, take full responsibility for their inventory verifications in the same way and to the same extent as they do for any other balance-sheet item.'

"This is an interesting assertion, which, if true, can have only one construction; namely, that total inventory (not alone the verified figures of the controlling account on the general ledger) must be ascertained to be actually on hand precisely the same as the actual count of cash and securities must be made to prove that each of these assets is actually on hand at the date of audit, as called for by the verified controlling general ledger accounts.

"For the purposes of most clients, an audit is expected to show only two things; namely, 'How much does the client owe?' and 'What has he got?' The coveted certificate usually means that (and little else) to the client, and certainly means just that to any interested 'third persons' to whom the client exhibits his 'certified balance-sheet.'

"Consequently, it follows, logically, that no certificate, qualified or otherwise, should be attached to any balance-sheet unless, and until, the accountant has put himself and his work in the position of being able and willing to go on the witness stand to testify, under oath, that the assets called for by the balance-sheet were all actually seen to be on hand, and were the client's property in good title on the date of the audit.

"The question does not appear to be the 'accountant's responsibility for inventories'; but, apparently should be stated as 'the accountant's responsibility for a certificate (if any) that means exactly what it purports to say, both in law and equity.'

"I would not insult any accountant by thinking, let alone arguing, that anyone would issue a certificate of any kind for a balance-sheet showing cash and securities, unless, and until, said accountant had actually counted all of both these assets, and found them to be all on hand and in good title to the client, as demanded by the controls. Consequently, I do not see how any accountant may ignore this fundamental duty to any or all other assets. If difficulties, insurmountable, present themselves so as to prohibit proper count and on hand verification, except only by an 'ideal accountant' or clairvoyant (of which the supply is notably short at present) what is the use of all this discussion about obvious duty?

"We all know that such situations present themselves. The only thing to do, then, in all conscience, is to withhold any 'certificate,' and write a comprehensive 'report' on the case, stating all of the facts of exactly what was done, and the conditions which forbade the issuance of any certificate, qualified or otherwise."

In his reply Mr. Peloubet says:

"Perhaps the thought behind the paragraph to which you refer might be made clearer when it is looked on as a plea, not for an extended physical verification of the items composing the inventory, but for a careful and intelligent utilization of the means which the accountant has at hand in the books and records themselves or through the agency of responsible third parties for the verification of the inventory.

"I am not quite clear as to the relevance of your point on cash and securities. I see how it might apply to a bank audit but my own ex-

perience is that in most audits the cash represented by that figure in the balance-sheet is not counted and could not be counted as it is merely a book account with the bank, the verification being made by comparison of the clients' records with certificates given by the bank. All we know in such a case is that the bank acknowledges the indebtedness payable on demand to the client. So far as securities are concerned it is not infrequent and is, I think, considered equally good auditing practice to verify these by certificate from the responsible custodians who hold them as it is to make a physical count where they are held in the company's own treasury or safe-deposit box. There are many other items which good auditing practice does not require should actually be seen. Few auditors, I think, go through a factory and by examination attempt to determine which machines were added during the year and which discarded and in that manner prove the additions and dismantlements shown by the records. The values represented by many other items are quite intangible yet may properly appear on the balance-sheet. Such items as various sorts of development and experimental work may be of substantial value in future years but may have no physical or tangible representation whatever. Goodwill, of course, is another item which, while admittedly present and valuable in many cases, can not be seen nor can title be verified.

"However, good accounting and auditing practice does not, I think, debar the auditor from giving an unqualified certificate to a balance-sheet containing some or all of these items.

"My endeavor throughout the whole article is to show that the inventory can be verified to about the same extent and by about the same means as would be applied to any other items appearing on the balance-sheet. In the first place inventories in whole or in part often are not on hand or within the physical control of the client at all. These, of course, are satisfactorily verified by warehouse receipts, bills of lading or other types of approved documents from third parties. The sentence following that which you quote in your letter reads: 'They should do this by means of the accounts and other records of the company with the additional corroboration of outsiders who can verify any parts of the inventory.' In the earlier part of the article various means of verification from the records are described and others are referred to. An attempt is also made to show the difficulties and unreliability of a physical count.

"I do not think it possible for an accountant to certify as the fifth paragraph of your letter would imply. The usual certificate 'presents a true and correct view of the financial position of the company' or shows 'the financial condition of the company' at a particular date. It is doubtful whether the public, the banks or the various stock exchanges require or wish more than this. To make a statement under oath that each individual item in the accounts is absolutely and undeniably correct in itself might be desirable if it were humanly possible, but even then the time and expense of producing it would be in most cases prohibitive and that it would have any advantages over the present form of statement is questionable. It certainly is not a requisite to a true presentation of the financial position and condition of a company and of its operations during a period.

"I am glad you brought up these points and trust this will make clear my personal view that accountants should approach the inventory question from the accountant's viewpoint—not from that of the appraiser.

"It is a great pleasure to read letters such as yours as they indicate that the subject is timely and that there is some interest taken in it from the point of view of principle and theory as well as from a strictly practical point of view."

The whole subject of inventories is so vitally important that its discussion should not end here. Everything that can be said or done to indicate the clear line of demarkation between what an

accountant may do and may not do is needed. Further correspondence will be welcome.

**The Menace of  
Fee-Splitting**

A brief note in the daily papers recently reported that the new president of the New York Academy of Medicine had said that fee-splitting among the members of the medical profession has grown to such proportions that it threatens to lead "to disaster, if not disgrace." The speech in full has not yet appeared in print and it is not absolutely clear what the speaker had in mind. Possibly the reference is to the paying of commissions to apothecaries, hotel clerks, dentists and others who make recommendations. Perhaps the speaker referred to cutting fees in order to attract the patients of other physicians. Perhaps he was thinking of physicians who go shopping among surgeons before referring cases to them. But for the present argument it does not matter in the least what was the iniquity to which the speaker referred. The important point is that one of the oldest, and certainly one of the most noble, professions is being threatened by the growth of unprofessional competition. If there were no rivalry between members of the medical profession there would be no fee-splitting or fee-cutting. There has always been a spirit of emulation in the profession and it may be that there has always been competition, but it is something new to hear a prominent member of the profession utter words of warning against the threat of "disaster, if not disgrace." Evidently the danger which confronts the practice of medicine and surgery is real enough to call for admonition. If splitting fees or cutting fees, whichever it may be, is so prevalent that the recent monitory utterance is deserved, the profession must have fallen on evil days. And herein is a lesson for other professions. Medicine is perhaps the most firmly founded of all. Its history runs back into the mists; its practice is ubiquitous; its value to the world is incalculable; its record of high professional morale is unsurpassed. If unethical practices can imperil a profession so ancient and so established what irreparable injury might they not do in accountancy which has only lately taken its seat in the senate of the professions?

**Professions Are Urged  
to Advertise**

A Chicago journal, which modestly describes itself as the world's greatest newspaper, has been endeavoring to impress upon the medical profession the desirability of departing

from that rule of ethics which forbids professional advertisement. It seems from the statements which have appeared that members of the medical profession are "sympathetic to the proposal" that physicians and surgeons should be allowed to advertise. The following paragraphs are typical:

"One of the most frequent criticisms of the present restriction against advertising is that a number of physicians actually receive the full benefits of advertising through prominent mention in the news columns. Without violating the ethics of the profession they have the faculty of gaining publicity concerning their work or their statements. This the critics who have expressed themselves consider an injustice, for the equally competent practitioner or specialist lacking this front page flair must be content with obscurity. He can not overcome his disadvantage by making a dignified statement of his professional preparation, his specialty, his hours of consultation, and his associations through an advertising medium.

"Others have suggested that the advertising prohibition is a superannuated convention, a static influence limiting the practice of physicians without self-promotion ability and denying information to the public. In cities, particularly where there is little neighborhood stability, a doctor is handicapped. He can not depend upon a reputation to bring him patients because of the shifting population and he is restrained from fixing the attention of the community upon his practice by the insertion of a professional card. The public, too, without the institution of the family doctor is without medical advice in emergencies. Consequently there is the likelihood of a patient becoming the victim of unscrupulous practitioners or of a cult.

"It is the influence of the American Medical Association, of course, which prevents such a revision of medical ethics. It is responsible, as no other agency could be, for the high medical standards, progress in medical research, distribution of information, and promotion of the public health in this country, but with its power there is the danger of creating too great censorship, of resisting progress with the inertia of tradition. It is well known that a number of its members regard its control of the profession as tyrannous. Some of this criticism should not be entirely discredited, although sympathy for the quacks who have been outlawed by the association and whose practice is constantly being fought should decidedly not be encouraged. In some respects the restraints imposed upon amateurs by the American Lawn Tennis association are comparable to the censorship of the American Medical Association. In forbidding amateurs to engage in certain publicity activity the tennis association refused to refashion its rules according to changing conditions. The same observation is probably somewhat justified in the case of the American Medical Association."

We do not believe that the American Medical Association is going to be greatly affected one way or the other by the editorial efforts of the world's greatest newspaper. The profession is too vertebrate for that, but some of the arguments which are contained in the matter which we have quoted have a familiar ring. We seem to have heard them in other days from other sources. For example, "He can not overcome his disadvantage by making a dignified statement of his professional preparation, his specialty, his hours of consultation, and his associations through an advertising medium." It is a pity, is it not? He should be allowed to say

in large type, "Dr. John Doe, graduate of Such-and-Such University, having achieved notoriety by virtue of scholastic attainments, offers his services to the sick public. His experience in the treatment of imaginary ailments qualifies him to prescribe those therapeutic drugs which will conduce to the peace and satisfaction of the patient. He specializes in the care of old and wealthy dowagers and nervous young mothers. Those who depend upon his services will get what they deserve." Perhaps that is not a dignified statement, but it is the kind of statement that would be made by many young practitioners if they were truthful. How utterly ridiculous the whole argument is. If physicians and surgeons are to advertise their qualifications what chance will the young practitioner have? The very men whose names are known throughout the country will be those who will receive the great benefit. Men who have done nothing noteworthy will have nothing to advertise and their position will be rendered untenable. Abstinence from advertising is really the safeguard of the novice. We are quite ready to admit that the newspaper which has been agitating this question is animated by the most lofty motives. It is not seeking to bring advertising revenue into its coffers. It is merely endeavoring to protect an oppressed and afflicted minority of the medical profession. From time to time other papers will attempt to come to the relief of the downtrodden accountant and will put forth arguments of the same general sort. But still we shall come back to the old and unanswerable argument that if there is to be advertising it will simply verify the inspired adage: "For whosoever hath, to him shall be given, and he shall have more abundance; but whosoever hath not, from him shall be taken away even that he hath"

The Sin of  
Conservatism

A writer in the *Wall Street Journal* recently complained of that conservatism of some corporation directors which induces them to hide assets and earnings, either to increase the strength and scope of the company by ploughing in surplus funds or to accumulate reserves from which dividends may continue to be paid if less affluent times are encountered in the future. While such a policy may protect the permanent investor, one may not deny that nowadays the permanent investor is in the minority. The most retentive stockholder is usually quite willing to sell his shares if he is persuaded that by the sale he will realize a sub-

stantial profit or avoid an imminent loss. Of course accountants agree that there is no justification for any policy which results in a material misstatement of financial condition. The public, however, has been inclined to vent all its indignation on companies which indulged in overstatement, without fully recognizing the almost equally evil practice of understatement. The worst feature of secrecy in matters of corporate finance is that the facts are not concealed from everyone alike. Certain stockholders, who happen also to be directors, and certain employees of the company who may not even be stockholders know the true situation at all times. The understatement of assets or earnings, or both, in published reports does not influence these "insiders" but deprives the larger number of stockholders of information to which they have an inherent moral and legal right. This sort of ultra-conservatism, therefore, is apt to foster a suspicion that those responsible for it may be deriving advantage at the expense of other owners of the company. The writer in the *Wall Street Journal*, while he deploras bureaucracy, hints that statutory insistence on complete and truthful financial reports may be the result if offending corporations do not themselves recognize the necessity for reform. It would be a pity to aggravate the legislative burden of business, but paternalism is the just reward of indifference.

**A Statutory  
Audit?**

If laws were passed to insure the issuance of wholly satisfactory financial reports the situation would be somewhat akin to that in England under the companies' acts. Perhaps corporations would be compelled to engage independent auditors to report periodically to stockholders and to government officers. In some states certain kinds of companies are now required to do this. Perhaps some official mechanism would be created under governmental supervision, whereby state employees would investigate the financial condition of all corporations, after the manner of bank examiners. Probably each state would deal with the problem in a different way, and the resultant confusion and annoyance to interstate business can not easily be imagined. American accountants have always championed the cause of business in opposition to excessive interference by government authorities, and they would not be inclined to change their position merely because their practice might be augmented by a pater-

nalistic innovation. The desirability of a statutory audit in a country where uniformity of requirements is impossible is very doubtful. However, there is no immediate indication that the law will have to be invoked in order to show reactionary directors the error of their ways. Most corporations of importance now voluntarily avail themselves of the services of independent auditors, and the reports of accredited accountants are willingly accepted by stockholders, bankers and government officers. Public opinion, supported by gradual education, will doubtless induce eventual unanimity on the question of the independent audit and will solve the problem. Complete and correct financial information, with a policy of frank publicity, has always been advocated by American accountants. Professional conservatism, which provides the margin of safety that makes the reports of reputable accountants absolutely trustworthy, will never countenance the ultra-conservatism which would withhold from those fully entitled to it information even remotely affecting their interests.