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Certified public accountant

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The Certified Public Accountant

What the Certified Public Accountant is
and what he does. The growth, the require-
ments and the work of a new profession.

By WALTER A. STAUB, C. P. A.

Reprinted from
THE BUSINESS WORLD,
of
JULY, 1910.

With the Compliments of
Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

New York

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*What the Certified Public Accountant is and what he does.
The growth, the requirements and the work of a new profession.*

THE profession of accountancy in America is still in its youth, its history having been one of rapid evolution, and of development in a remarkably short period of time. Men are still living who claim to have been among the pioneer public accountants of America. As the need for skilled accountants of wide experience in different lines of business was felt by the business world, the number of those who devoted themselves to the meeting of this need increased. It was recognized in time that here were the beginnings of another profession: there was the need for the exercise of unusual skill in the performance of the duties devolving upon the public accountant; a mastery of the fundamental principles underlying accounting systems and the interpretation of accounts in all commercial and financial lines was a prerequisite to the exercise of such skill; confidential relations existed between client and practitioner.

The recognition of these facts gave rise to the opinion—both among those practicing accountancy and those who had occasion to call on accountants for their professional services—that the time had come to formally recognize accountancy as a profession and to establish regulations and standards, so that those

having need of public accountants' services—in short the business world and the public at large—might be protected from inefficient or dishonest practitioners.

NECESSITY FOR STATE SUPERVISION.

It might be urged that after all there is no need of laws to regulate the practice of accounting. The efficiency and the integrity of the practitioner would be revealed by the kind of services he rendered his clients, and, on the theory of the survival of the fittest, the incapable accountant would drop out of the race. The same thing, however, is just as true of the doctor and lawyer; yet no one questions the necessity for supervision by the State of those practicing medicine or law. Then, too, in the process of eliminating the incompetent doctor or the shyster lawyer, the patients of one and the clients of the other may have sustained irreparable injury. So with the public accountant; his responsibilities in these days are too great and the evil consequences following inefficiency or maladministration too grave to warrant entrusting them to any Tom, Dick or Harry who chooses to hang out his shingle as an "Expert Accountant." Consideration for the public welfare demands that it shall be safeguarded by placing restrictions about the profession of accountancy, so that those bearing the

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approval of the State as properly qualified to practice, may be distinguished from those who have not submitted themselves for examination as to their qualifications.

C. P. A. LAW.

In 1896, the State of New York enacted the first Certified Public Accountant law in this country, providing for the examination, by a board of examiners appointed by the regents of the University of the State of New York, of persons applying for certificates and the granting of certificates to those possessing the necessary qualifications, designating such persons to be certified public accountants and making it a misdemeanor for any person not possessing a certificate to "assume such title or use the abbreviation C. P. A. or any other words, letters or figures, to indicate that the person using the same is such certified public accountant." The regents of the University were also empowered to revoke certificates for sufficient cause.

Pennsylvania was the second state in the Union to pass such a law,—with this modification, however, that the board of examiners is appointed by the Governor of the State and the certificates are granted by him upon the recommendation of the board of examiners. About half of the states, including practically all those in which the large commercial centers are located, have passed similar laws regulating the profession of accountancy. Illinois follows the example of New York in having the examinations conducted by its State University (acting through an examining board composed of accountants appointed by it); all the other states which have enacted the law have boards of examiners appointed by the Governor.

C. P. A. REQUIREMENTS.

Inasmuch as the examining boards in the various states are independent of each other and set their own standards, it naturally follows that the same condition exists in this new profession as in the older ones of law and medicine, viz., that some states have somewhat higher standards than others. Now that through the influence of the American Association of Public Accountants a national organization of the state examiners has been formed, there will undoubtedly be an increasing tendency toward uniformity of standards.

The preliminary requirements of the state, which has set what is widely regarded as the highest standard, are that applicants must be citizens of the United States, residing or having an office in the State, must be over the age of twenty-one years and of good moral character. A general education, equivalent to a public high school course of recognized high standing, is required, and any candidate not presenting proper credentials in respect to his having this preliminary education must pass an examination in the subjects found in a high school curriculum. There is also a preliminary examination embracing the History of Accountancy and the Elementary Principles of Accounts.

Before taking the final examination a candidate is required to register as a student in accounting in the office of a certified public accountant and (a) as devoting his time to the study and practice of accountancy; or (b) as a student in a recognized school of accountancy. After having been so registered for not less than two years, candidates may take the final examination, the subjects of which are grouped under two general heads,

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viz., Commercial Law and General Accounting.

Commercial Law includes all the branches of law that relate to the work usually undertaken by a public accountant such as Real Estate and Personal Property, Decedents' Estates, Landlord and Tenant, Contracts, Partnership, Corporations, Banking, Evidence and Crimes.

With regard to General Accounting, applicants are "expected to have a thorough knowledge of the theory and application of accounts, the various forms of business organizations and the methods of administration under which they are conducted, and to be prepared to examine and report upon all matters relating to accounts or accounting practice." The subjects enumerated are Banking, Insurance, Manufacturing, Mining, Selling, Transportation, Public Utilities, Governmental and Legal.

ERRONEOUS IMPRESSIONS OF ACCOUNTANT'S WORK.

So much for the certified public accountant and his qualifications. We may now consider the work he does or may be called on to undertake.

Some years ago many people had an idea that a public accountant—or, as he was more generally known at that time, an "expert accountant"—was a kind of highly developed bookkeeper or an arithmetical wizard who could add simultaneously two or three columns of figures, or, while the layman was adding up the cents column, set down the correct total of a long list of amounts. Others again—and this is an impression that even some otherwise well-informed business men have not quite gotten rid of—pictured the accountant as one to be called in only to attend the obsequies of a defunct business, or to trace out the sin-

uous trail of a trusted employee, discovered to have been an embezzler for years past.

Our leading bankers and men of affairs in the business world have, of course, long since gotten away from these in part erroneous and in part narrow views, and value the certified public accountant as one of the most useful and necessary aids to the successful conduct of business affairs. It may not be amiss, however, to point out some of the ways in which the services of accountants are of value to their clients. The variety has become so infinite that it is not practicable to enumerate them all in a limited space.

AUDITS—PERIODICAL AND SPECIAL.

The general class of work performed by the certified public accountant, with which the general business public is perhaps most familiar, is that of making audits—either periodical or special. Periodical audits are those made in pursuance of a continuing engagement between the accountant and his client, providing for examination of the accounts either at stated intervals such as annually, semi-annually, quarterly or monthly, or a stated number of times at irregular intervals during the year. The latter method has been found preferable in the case of financial institutions such as banks and trust companies or stock brokers and like businesses. Special audits are those where the engagement is for a single audit without any definite intention or commitment to make them regular or periodical. Such audits may be made for special reasons or simply as a result of a feeling on the part of the management or institution that it would be wise to have an audit made, perhaps also with a view to receiving suggestions

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for the improvement of the accounting system.

Briefly stated, audits may be said to embrace the verification of the financial condition of an undertaking as stated at a given date, and the verification of earnings, expenses and profits for a given period terminating with that date. An audit might be restricted to the verification of present financial condition, but it is not practicable to make an audit of the operations of an undertaking, expressed in financial terms, without also verifying, at least indirectly, the financial condition at the close of the period.

Auditing involves such examination of the accounts and auxiliary records of an undertaking or institution as will confirm their integrity and reveal any errors, either of omission or commission, or, as they may also be classified, errors of either principle or technique. Under errors of principle come such questions as erroneous or incomplete treatment of the distinction between construction and maintenance expenditures, provision for depreciation or accruing renewals of plant as well as for undetermined losses, omission of liabilities (either due or accrued), and similar problems with which the way of the accountant is well strewn.

Technical errors are those resulting from entries incorrect in form, and arithmetical errors. The average plain everyday "bookkeeping mistake" may also be placed under this head.

In addition to examining the books and supporting records themselves, often termed "internal verification," it is frequently necessary to verify the correctness of the accounts from outside sources. This is particularly necessary in the case of financial institutions and undertakings. In addition to examining securities and various documents, it is

essential in banks, for instance, to confirm the correctness of loans and collaterals by correspondence with the borrowers, deposits by statements sent to depositors, etc. Even in manufacturing and mercantile businesses it is frequently desirable to confirm the correctness of some of the items in the balance sheet, such as accounts receivable, by correspondence or other external means.

INTEGRITY OF ACCOUNTS.

The verification of a statement of financial condition and of the operations of an undertaking for a period, necessarily requires that the accountant shall satisfy himself as to the integrity of the accounts he is auditing. While generally speaking this is true of every business, there are some undertakings in which it is an especially important part of the examination to be made, viz., those in which the merchandise handled consists of currency, negotiable paper and securities. Such are banks, trust companies, insurance companies, building and loan associations, brokerage houses and the like.

Fortunately the great majority of men are honest, but this is no reason why they should not from time to time be called on for an account of their stewardship and their dealings be subjected to review. The prayer "deliver us from temptation" would have been more than half answered for many a man who has succumbed to temptation if he had known that his accounts would be closely scrutinized at comparatively frequent intervals. Indeed, it is a question whether proprietors or directors, who do not take steps to surround their employees and subordinates with such safeguards as will protect them against themselves, are not guilty of contributory negligence.

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As George Horace Lorimer's "Old Gorgon Graham" says:

"The great secret of good management is to be more alert to prevent a man's going wrong than eager to punish him for it. That's why I never had any Honest Old Toms, or Good Old Dicks or Faithful Old Harrys handling my good money week-days and presiding over the Sabbath-School Sundays for twenty years, and leaving the old man short a hundred thousand, and the little ones short a superintendent, during the twenty-first year.

"It's right to punish these fellows, but a suit for damages ought to lie against their employers. Criminal carelessness is a bad thing, but the carelessness that makes criminals is worse. The chances are that, to start with, Tom and Dick were honest and good at the office and sincere at the Sunday-School, and that given the right circumstances, they would have stayed so. It was their employers' business to see that they were surrounded by the right circumstances at the office, and to find out whether they surrounded themselves with them at home.

"A man who's fundamentally honest is relieved instead of aggrieved by having proper checks on his handling of funds. And the bigger the man's position and the amount that he handles, the more important this is. A minor employee can take only minor sums, and the principal harm done is to himself; but when a big fellow gets into you, it's for something big, and more is hurt than his morals and your feelings."

THE ACCOUNTANT'S FIELD.

Audits are not restricted to a few lines of business or even to the business world. In addition to examining the accounts of financial institutions, mining,

manufacturing and mercantile enterprises, and transportation and public service corporations, public accountants are now called on to audit the books of educational, philanthropic and other semi-public institutions and of municipalities and states.

SPECIAL INVESTIGATIONS FOR INVESTORS.

Special investigations or examinations for prospective investors or for bankers have become an important part of the accountants' practice. They are really a species of audit but, as they are directed to obtain special information, the procedure is ordinarily somewhat different from that of a complete audit. The prime objects are usually to ascertain the financial condition at a given date and to make certain that the net profits for a period—generally from three to five years—have not been overstated to the prospective investor. In these investigations it is customary, in the absence of surface indications to the contrary, or a contrary wish on the part of the client, to assume the correctness of the books as far as their integrity is concerned and the period's transactions are not reviewed in the same detail as is usually desirable in a complete audit. For the particular end in view, however, the investigation is just as effective.

EXAMINATIONS FOR BANKERS.

Bankers now frequently ask clients to submit statements of their financial condition. In the form adopted by the New York Bankers Association and recommended by it for use by its members, appears the question, "Verification: Have the books been audited by a Certified Public Accountant? . . . If so, name and date of audit. . . ."

In commenting thereon William A.

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Prendergast, recently elected Controller of the City of New York, says in "Credit and Its Uses":

"(this) question * * * has only recently come to be regarded as a living issue in credit economy. * * * The failure to have a concern's books examined at stated intervals has frequently permitted the growth of unwise practices. The fact of no examination of the books being made by an outside and thoroughly impartial person has left them absolutely under the control of those who may be either not entirely competent or inclined to dishonesty. It is a matter of frequent occurrence that a firm will discover after many years that a trusted employee has been defrauding it through speculation. The latter condition would undoubtedly have been revealed if the books had been examined at regular intervals by competent accountants. It is a healthy sign that banks have determined to ask and insist upon such examinations. This policy will have the effect of eradicating irregular methods and greater evils. Another beneficial effect will be the education of the business public as to the necessity for these examinations, which should be a matter of frequent and orderly procedure."

In addition to asking this question, however, some bankers before granting a large line of credit to a new customer—particularly where audits have not been the customer's rule—insist on an examination by a public accountant, the latter's report being made to the banker. These examinations are also of a special nature, as the extent of detail embraced varies with each case, depending on the wishes of the banker. It is hardly necessary to say that after the audits made from time to time, bankers appreciate the voluntary submission for their in-

spection by a customer of the certified balance sheet. No one thing is better calculated to impress the banker with his customer's prudence and good business sense than the fact that he has his accounts periodically audited.

ACCOUNTING AND COST SYSTEMS.

Another important part of the accountant's work is the systematizing of accounts. This embraces the devising of improved systems for financial, business and public institutions and the planning and installing of cost systems for various industries. Systematizing has in some quarters received a "black eye" through the wild promises, and lack of any result except confusion worse founded, following the efforts of impracticable or incompetent "systematizers," whose conception of system seemed to be the maximum of red tape which could be wound around the subject of their systematizing. Some of these gentlemen go so far as to practically offer to relieve the manufacturer of running his factory; they will systematize it and run it for him—all he need do is to sit back and draw the dividends. The improbability of dividends under such conditions is obvious. Nowhere is the need for common sense and the appreciation of the distinction between the essential and the non-essential more necessary and vital than in the devising and installing of accounting systems. The system must be adapted to the business and not the business forced to adapt itself to the system.

OUTGROWN ACCOUNTING SYSTEMS.

Every public accountant has had instances come under his observation of businesses which started in a small way, but in a comparatively few years grew to

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large dimensions. During the period of expansion, when every nerve was being strained to keep up with the increasing demands on the organization, but little attention was paid to the accounting system, it expanding only along already existing lines. As a consequence a large business is being conducted with the same general accounting system which the proprietor used in the earlier days when he was in intimate touch with the details of every transaction, when he was perhaps his own bookkeeper and when he carried many of the records of the business in his head.

Under such conditions the results of the operations of different departments, or branches if such there be, are not being accurately ascertained, or, if at all, only at infrequent intervals; likewise, the financial condition, if stated periodically, is perhaps determined on a rough-and-ready basis, accrued liabilities being ignored, inventories valued on unsound principles, etc. The consequence is that the efficiency of control of the business through the medium of the accounts, is at a low percentage.

IMPORTANCE OF PROPER ACCOUNTING SYSTEMS.

Many a promising and rapidly developing business has foundered on the rocks of financial distress because actual conditions were not known. Because a large gross business was being done it was thought that all must be well. Just as the mariner must take frequent observations to determine his location, so the management of a business must, if it is to safely conduct it, have such a system of accounts (necessarily having it efficiently administered) as will furnish the information and data necessary to indicate the real results of the operations

of the business as well as its true financial condition from time to time.

Of the importance to the business man, the banker, those directing our public institutions and our governmental officials, of proper systems of account, it is hardly necessary to speak; almost anyone will admit it offhand. The importance to manufacturers of being able to ascertain accurately the cost of producing their wares is, in the abstract, also quite generally admitted. Modern industrial and commercial development also demands accounting systems that will permit of ascertaining earnings and financial condition much oftener than once a year after the annual "stock taking."

No one is by training and experience better fitted to devise and instal accounting systems, for cost purposes as well as others, than the certified public accountant. He has a firm grasp of the essential principles on which the system must be based, and his contact with many varied lines of industry is of inestimable value in making a practical application of his knowledge.

ACCOUNTANCY IN LEGAL PROCEEDINGS.

One other phase of the accountant's work which can only be mentioned is that in connection with legal proceedings, such as bankruptcies, trusteeships, decedents' estates and partnership settlements. Here he may, after making the necessary investigation, be called on to testify in court. Cases of fraud also necessitate his occasional appearance as a witness, testifying to the facts which he has ascertained. The increasing complexity and many ramifications of modern business transactions render his aid to the equitable administration of justice indispensable.

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ACCOUNTANCY AS A PROFESSION FOR
YOUNG MEN.

The profession of the certified public accountant is one of great promise for the young man who, having a certain measure of mental fitness and adapta-

bility therefor, is willing to do conscientiously the hard work essential to properly qualifying for its practice and who has the enthusiasm and high ideals which are prerequisites for the truly successful pursuit of any profession.