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Public accounting in 1929

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PUBLIC ACCOUNTING IN 1929

Abstract: Shortly before the beginning of the Great Depression, certified public accountants were struggling for both an acceptable definition of their role as well as professional recognition. This paper describes the environment in which CPAs worked as well as their concerns. Areas reviewed include training and entry into the field, ethical and legal standards, conduct of practice, financial rewards, professional concerns, and perceptions of the future. The purpose of the paper is to increase our appreciation of the challenges and opportunities facing CPAs in 1929.

Just before the start of the Great Depression, certified public accountants were few in number and struggling for professional recognition. This paper describes the nature of their world: training and entry into the field, ethical and legal standards, conduct of practice, financial rewards and perceptions of the future. The picture that emerges contributes to our appreciation of the challenges and opportunities facing CPAs fifty years ago.

College and the First Job

The accounting class of 1929 was small by today's standards. In fact, there were only about 56,000 students enrolled in accounting courses. Only about 10% of these were majoring in accounting. Many college graduates did not even consider a career in public accounting: the profession was not well known. Of those graduates who did opt for public accounting careers, most initially took jobs with private corporations.[1] There were several reasons for this preference: students desired to gain some practical accounting experience before going with public accounting firms, accounting employees in public practice experienced seasonal layoffs that were particularly widespread among inexperienced juniors, and there was "still a great deal of prejudice among accountants against the green college graduate."[2]

To attract more and better graduates into the profession, the American Institute of Accountants (later to change its name to the AICPA) organized its Bureau for Placements in 1926. By 1929, more than 10,000 college students had received the Bureau's pamphlets describing opportunities in accounting. Sending Bureau speakers to colleges and universities, the Institute was maintaining ties with more than 136 institutions of higher education.[3]

To overcome the problem of seasonal staff layoffs, each firm hiring through the Bureau had to agree to employ the college graduate for three years even if the firm's activity level declined. The new junior assistant was guaranteed an initial salary of $125 per month—"the smallest amount on which a boy can live decently in most cities if he does not live at home."[4] By August 1929, 950 college men had applied for jobs through the Bureau and 172 had been placed.[5] The magnitude of these numbers indicates that most new entrants into the profession were starting with only a high school education.

The Institute recognized the advantages of attracting college men with "natural qualifications" who had made an "outstanding record."[6] To be considered for the Bureau's program, the student need not have majored in accounting—in fact, he need not have taken any courses in accounting. The qualifications sought were intelligence, a good appearance and deportment, the ability to express ideas concisely and understandably, moral stamina, and ambition.[7]

The Bureau advised member firms, "It is generally believed that a college graduate requires a year or more to become acclimated, after which he should progress rapidly."[8] Some firms had schools for juniors, but generally they were trained by "putting them through the mill."[9] Suggesting that these college graduates not be treated "any differently from other boys employed as juniors," the Bureau advised, "If they are made of the right stuff, they will catch on rapidly enough."[10]

Once placed, a successful junior could, on the average, expect to be promoted to senior in five years. Some firms had an intermediate training level called semi-senior. Attaining the rank of senior, "proclaimed one a master in his field."[11]

Becoming Certified

In 1929, the recent college graduate rarely took (much less passed) the CPA examination. In the words of an examiner, "The holder of a CPA certificate is supposed to be qualified as an expert auditor and accountant from the start, and the examiner submits that it is his duty to the public and to the profession to ascertain that the candidate has at least the minimum qualifications of such an expert."[12]

Public accounting experience was essential to passing the examination. In his May 1930 study of Chicago area public accounting employees, Lay found that college graduates who had taken accounting courses needed an average of four years of experience to pass. Those who were not college graduates, but had taken special courses, required an average of just over six years of experience to pass. For those who had taken no accounting courses, an average of almost ten years of experience was necessary to become certified.[13]

In the 1920's more than one out of five certificates issued by examination were from New York. The New York requirements, as set forth in the state's new CPA law signed in April 1929 by Governor Franklin D. Roosevelt, were as follows: between seven and ten years of experience, a high school education or ten years of public practice, U. S. citizenship or the intention to become a U. S. citizen, and payment of a $25 examination fee.[14]

Eleven states, including New York, prepared, administered, and graded their own examinations. The other thirty-seven states and the territories used questions prepared by the Institute—a service which had been provided since 1917. Only ten of these jurisdictions, however, used the Institute's grading service. As a result, there was "a lack of uniformity and the significance of the certificates issued . . . depended upon the conditions of each individual state."[15]

In May 1929 only about 15% of the roughly 800 candidates who took the Institute's examination passed. The Board of Examiners decided to withhold the Elijah Watt Sells Scholarship Prize of $50 because no examination was thought worthy of the award. Only 9% of the 552 candidates taking the Institute's November examination passed. (In November 1978 there were 54,720 candidates taking the examination.)[16]

According to an examiner writing in the *Journal of Accountancy,* the low passing rate was caused by too many impatient candidates taking the test as soon as they met their states' experience requirements. Five to ten years was thought necessary to become "a qualified public accountant."[17]

The state of the art of testing at that time left room for improvement in the construction of the Institute's examinations. Eric Kohler suggested that better advance review of the examinations would do much to reduce the number of "ambiguities" and "obscure or incomplete points."[18] He pointed out that the November 1929 exam "contained a problem that could not be solved from the information furnished."[19]

By June 30, 1929, despite the difficulties imposed by the experience requirements and the examination itself, 11,846 individuals (including about sixty women) had been certified. The growth in numbers of CPAs had been fairly slow since the first state (New York) had passed a CPA law in 1896. Before 1908 fewer than 100 individuals per year had become certified. Starting in 1924 more than 1,000 people per year were gaining certification. In 1929 there were an estimated 9,000 CPAs in the United States. (In 1977 there were an estimated 175,000 CPAs.)[20]

Ethics and the Legal Environment

The professionally active CPA could become a member of the American Institute of Accountants (membership in 1929: 1,742 members plus 443 associates; in 1979: 146,000), the American Society of Certified Public Accountants (membership in 1929: 2,613; later merged into the Institute), and/or his state society. (The New York State Society of CPAs had 1,231 members in 1929.) Also, interested persons could join the National Association of Cost Accountants (membership in 1929: about 6,000; in 1979: 91,400) and the American Accounting Association (membership in 1929: 633; in 1979: 12,000).[21]

Members of the Institute, the Society, or certificate holders in states with societies or licensing agencies that had disciplinary powers were subject to codes of ethical conduct. Eric Kohler explained that these standards were "designed to restrain the inevitable minority among professional men from encroaching on the rights of others, and from performing improper services. . . ."[22]

Unethical behavior such as fee splitting, engaging in other business, violating the law, soliciting, and advertising was not uncommon. One reason given for the extent of unethical activity was the large number of public accountants who were neither members of one of the national accounting organizations with professional codes of conduct nor subject to disciplinary proceedings of their state society or licensing agency.[23]

In his annual report for 1929, the Chairman of the Institute's Committee on Professional Ethics was "of the opinion that a fair proportion of the membership does not know about the rules of professional conduct."[24] He suggested that these rules be reprinted in the Institute's *Bulletin.* Commenting on the rules of professional conduct, the editor of the *Journal of Accountancy* remarked, "The next generation of accountants will probably be unanimous in acceptance of the dictates which are so often the subject of argument and bitterness today."[25]

As seen by the courts, the accountant was not recognized as a member of a learned profession but only as a skilled laborer. In 1927, however, the accountant's status as an independent contractor who owned his working papers had been confirmed.[26]

The CPA was expected to perform with the ability of an average public accountant. As long as he exercised reasonable care and caution, he would not be held liable for errors of judgment.[27]

The auditor was "justified in believing tried servants" of his client company if the company itself placed confidence in them. A careful CPA was "entitled to assume that they are honest and to rely upon their representations."[28] If, however, a defalcation by an employee remained undetected because an audit was incompetently or negligently performed, the auditor could be required to refund any fees received in connection with the engagement.[29]

Reliance on written representations of management concerning the validity of accounts receivable and the quantity, quality, and condition of inventory was common. The best practice of the day was embodied in the Institute's newly revised (May 1929) "Instructions for Verification of Financial Statements" published by the Federal Reserve Board. Although these instructions said, "It is best to verify open [receivables] balances by confirmation from customers," this practice was generally considered too costly and not especially important.[30]

The "Instructions" indicated that the auditor should assume responsibility for the clerical accuracy and pricing of inventory. With respect to quality, quantity, and condition, however, the auditor was generally expected to rely upon written representations by his client's officers and employees. Unless there were reason for suspicion, the auditor was not expected personally to inspect or observe the counting or classifying of inventory.[31]

George O. May, senior partner of Price Waterhouse, stated the generally accepted view of the profession when he wrote that verification of physical inventories was not within the special competence of auditors. Except in cases arousing suspicion, the costs of reducing the risks of inventory overstatements were thought too large. "Grantors of credit should find their protection in the distribution of risks and rely on the law of averages. . . ."[32] Participating, or even appearing to participate, in an inventory count and classification was labelled "unwise."[33]

Unable to find any American cases on the subject, one writer cited the English Kingston Cotton Mill case to illustrate the American accountant's responsibility for inventories. In that case, Lord Justice

Lopes had stated that unless "an ordinary careful examination of the books" arouses suspicion,

> it is not the duty of an auditor to take stock; he is not a stock expert; there are many matters in respect to which he must rely upon the honesty and accuracy of others. . . .[34]

Other accountants, however, argued that auditors should not merely accept full responsibility for inventory verification, but should demand it.[35] Debate on the extent of auditors' responsibilities for receivables and inventories would continue until October 1939 when, as a result of the McKesson & Robbins situation, the membership of the Institute would vote to require confirmation of receivables and observation of inventories as requisites for an unqualified report.

In 1927, in an action described by the *New York Times* as "novel" and "unusual," two third party creditors had brought suit against Touche, Niven and Co. Two banks were asking that an accounting firm be held liable for losses on loans made in reliance on negligently audited financial statements.[36] A similar action was brought by another creditor, the Ultra Mares Corporation.

In June 1929, a verdict for Ultra Mares was set aside by New York State Supreme Court Justice Walsh. Although the defendants had " 'negligently performed their work,' " and knew their audited statements would be used to obtain credit, Walsh found no breach of duty between Touche and Ultra Mares and therefore no cause of action.[37]

Commenting on this decision, the *Journal of Accountancy's* editor stated that the ruling was "legal and sensible." "In . . . Ultra Mares . . . the court decides, as it has always seemed inevitable that a court would decide, against the rather preposterous theory that an accountant . . . has a pecuniary or even a moral responsibility to persons outside the contract who subsequently may have . . . an interest in the fruit of the contract."[38] Ultra Mares, unsatisfied with the decision, indicated it might take the case to the Appellate Division.

Suits against accountants were sufficiently common to interest CPAs in obtaining legal liability policies that were being developed by insurance companies. Many British accountants had already obtained such protection. Carrying such insurance was controversial. Eric Kohler wrote, "No worse contravention of [the accountant's] duties to third parties could be conceived."[39]

Practice

Besides insurance, another way to cope with the risks of professional practice was development of standard forms of practice.

Such forms could provide practitioners with a stronger justification for the degree of responsibility assumed and with a better defense than personal opinion. Once agreement was reached on the classifications, individuals would be less likely to misinterpret the product of the CPA's efforts. An auditor could simply fix his degree of responsibility by referring to the particular service category in which his work fell. The CPA's client as well as the junior or senior on the job would have a better understanding of what was to be done.[40]

Committees of both the American Society and the American Institute prepared classification schemes. The latter's, developed by John R. Wildman, first President of the American Accounting Association, was based on the practice of a major CPA firm. There were fourteen service categories:

1. general audits
2. balance sheet audits
3. cash audits
4. general examinations
5. limited examinations
6. investigations
7. preparation of statements from books or records without verification
8. tax engagements
9. general accounting and record systems work
10. development of cost finding systems
11. preparation and installation of budget systems
12. performance of bookkeeping work
13. rendering opinions on accounting and financial matters
14. other work, e.g., liquidations, arbitration, expert testimony.[41]

This listing well illustrates the types of services available from the CPA in 1929. Robert Montgomery, founder of the firm of Lybrand, Ross Brothers & Montgomery as well as a professor of accounting at Columbia University, opposed adopting any classification of services. He said "Instead of more limitations we should seek more freedom of speech, greater opportunities for unlimited service."[42]

The annual corporate audit was still a relatively rare phenomenon: only 892 firms out of 15,000 companies listed in the industrial section of "one of the well-known manuals" took advantage of this service.[43]

One type of general examination was performed in connection with the issuance of securities. The accounting profession faced particularly acute problems in this area. Investors were frequently asked to buy on the strength of the underwriter's reputation rather than on the basis of information contained in the full prospectus. Frequently only an abridged prospectus was issued. Often this included a statement that the books had been audited by a specifically named and well-respected CPA firm. Omitted was the firm's certificate or any mention of what the auditors had concluded. A. P. Richardson, the *Journal of Accountancy's* editor, lamented the absence of laws against this practice.[44]

Understanding the financial statements and certificates that were publicly available, however, took no little expertise. Certificates could be "long," "short," "qualified," or "unqualified." They could refer just to the balance sheet, just to the income statement, or to both. "The ideal certificate," Professor David Himmelblau of Northwestern University suggested, "is one that conveys precisely the right shade of meaning to anyone who studies carefully every word, and at the same time creates the correct general impression in the mind of anyone who reads it casually."[45]

The editors of both the *Journal of Accountancy* and the *Accounting Review* lamented the lax definitions, confused and nonuniform usage, and absence of generally accepted definitions of words in financial statements and certificates. Henry Rand Hatfield, a noted author and faculty member at the University of California's College of Commerce, observed, "In order to be understandable, a language must possess a clearly defined terminology, and the lack of this is the chief defect of accounting."[46] He explained that some well-known accountants presented "net income" without having subtracted interest on bonds. Others, equally well-respected, subtracted bond interest before arriving at "net income." "Profits," "net income," and "income" each had a variety of definitions. Through its terminology committee, the American Institute was trying to promote development of more uniform definitions.[47]

Given the confusion in the form, content, and terminology of financial statements and auditors' certificates, it is not surprising that some bankers were known to make loans on the strength of a well-respected auditor's name, regardless of what his certificate said. Only partly in jest did the *Journal of Accountancy's* editor suggest that bankers could be found who would make a loan solely on the strength of a well-respected auditor's signature on this certificate:

> We have audited this balance sheet and say in our report
> That the cash is overstated, the cashier being short;
> That customers' receivables are very much past due;

That if there are some good ones they are very, very few;
That the invent'ries are out of date and principally junk;
That the method of their pricing is very largely bunk;
That, according to our figures, the undertaking's wrecked,
But, subject to these comments, the balance sheet's correct.[48]

Productivity and, hence, profitability, increased as new machines enabled the CPA to simplify tasks and reduce the drudgery associated with collecting, summarizing, and recording information. Many of the new machines were electrically operated and were thus more economical because, as a Burroughs ad pointed out, "A light key touch actuates the motor" and reduces operator fatigue. The new Burroughs 10 column electric calculator could add and subtract, multiply by repeated addition, and continuously display the accumulated totals on its dials. It was available for $300—just over half the cost of a six-cylinder Chevrolet that got twenty miles per gallon. Other improvements like fountain pens, mechanical pencils, carbon paper, mimeographing and Addressographing machines all were available to make the public accountant's office "the acme of modernity."[49] Generally, running a practice cost 59% of gross billings (see Table 1).

Rewards of Practice

As shown in Table 1, the average income of CPAs in public practice as partners or individual practitioners compared quite favorably with that of doctors, dentists, and lawyers although some of the state to state variations were substantial. Because median income figures are less affected by the few very large incomes earned in each profession, they give a better idea of how most partners and individual practitioners were doing.

For purposes of comparison, income estimates for 1976 are provided in Table 2. CPA partners and individual practitioners averaged more than doctors, dentists, and lawyers in 1929. By 1976, the CPA group was averaging less than these other professional groups. Gross revenue or net income statistics for individual firms in 1929 are difficult to find. Arthur Andersen reported, however, that its 1929 annual fee volume was $2,023,000. At that time the firm had seven partners.[50]

Professional Concerns

Recognition was an important issue. Although the courts did not consider accounting a "learned profession," an editorial in the

Table 1

Remuneration from Professional Practice in 1929

	Medical Doctors	Dentists	Lawyers	CPAs
Total number	152,510	69,562	141,501	9,000
Number of partners and individual practitioners	119,324	63,322	110,569	5,010
Average net income				
California	$6,513	$5,408	(n/a)	$ 5,946
Illinois	5,833	5,006	(n/a)	6,602
Massachusetts	5,471	5,549	(n/a)	7,658
New York	6,207	7,782	(n/a)	10,824
Pennsylvania	6,055	5,549	(n/a)	8,883
United States	5,602	5,020	$5,534	7,776
Median net income				
United States	3,758	3,676	3,300	5,824
% net income to gross income				
United States	57%	58%	69%	41%

Sources:

For medical doctors: **National Income, 1929 - 32,** Senate Document No. 124, 73d Congress, 2d session: pp. 148, 206, 245, 246; **Survey of Current Business** (April 1938), U. S. Department of Commerce: p. 12; **Survey of Current Business** (July 1951), U. S. Department of Commerce: p. 12.

For dentists: **National Income, 1929 - 32,** Senate Document No. 124, 73d Congress, 2d session: pp. 148, 206, 247; **Survey of Current Business** (April 1938), U. S. Department of Commerce: p. 12; **Survey of Current Business** (January 1950), U. S. Department of Commerce: p. 9.

For lawyers: Friedman, Milton and Simon Kuznets, **Income from Professional Practice** (New York: National Bureau of Economic Research, 1945): p. 6; **Survey of Current Business** (August 1949), U. S. Department of Commerce: p. 19; **Historical Statistics of the United States: Colonial Times to 1970, Part 1**, U. S. Department of Commerce: p. 176; **Survey of Current Business** (April 1938), U. S. Department of Commerce: p. 14.

For CPAs: **National Income, 1929 - 32,** Senate Document No. 124, 73d Congress, 2d Session: pp. 152, 254, 255; **Survey of Current Business** (April 1938), U. S. Department of Commerce: p. 12; Friedman, Milton and Simon Kuznets, **Income from Professional Practice** (New York: National Bureau of Economic Research, 1945): pp. 414, 415, 555, 556; Tucker, Arthur R., "Great Progress Made by Accountancy During Past Year," **The American Accountant** (May 1929): p. 253. Median income of CPAs was estimated by applying the percentage relationship between the mean income estimated in Senate Document 124 table 9, p. 255 and Friedman and Kuznets' estimated mean income to their estimated median income.

Note: All figures are estimates based on samples.

Table 2

Remuneration from Professional Practice in 1976

	Medical Doctors	Dentists	Lawyers	CPAs
Average net income				
United States				
sole practitioners	$37,493	$33,408	$19,003	$15,512
partners	57,538	27,794	47,031	39,884
combined	40,803	33,039	30,182	28,482
% net income to gross income				
United States				
sole practitioners	58%	46%	52%	48%
partners	51%	38%	49%	28%
combined	56%	45%	50%	32%

Source: **Preliminary Statistics of Income: 1976, Business Income Tax Returns—Sole Proprietorships, Partnerships** (October 1978) Department of the Treasury, Internal Revenue Service (publication number 10-78): pp. 11, 35. Note: Calculations exclude businesses operated at a loss and are estimates based on samples.

Saturday Evening Post may well have represented informed public opinion: with ever-increasing usefulness, "accounting comes into a prominence and significance that cannot be denied."[51]

Montgomery remembered the profession's earlier days when "the employment of public accountants would be looked upon as evidence of suspected fraud . . . and doubt regarding financial strength. . . . Many investigations by public accountants were made secretly, often at night and on Sundays."[52] In 1929 the work of the CPA was much more broadly defined and widely respected. Hatfield explained his conception of the role of the accountant:

> . . . to locate responsibility, to prevent fraud, to guide industry, to determine equities, to solve the all essential conundrum of business: "What are my profits?", to facilitate the government in its fiscal operations, to guide the business manager in the attempt to secure efficiency.[53]

By late 1929 a writer in the *Accounting Review* stated, "It may be safe to hazard a guess that the professionalizing of accountancy will be an experience parallel to the professionalizing of these other [medicine and law] vocations."[54]

Another concern was the purpose of the balance sheet. Was it to reflect income legally available for dividends? This was the view found in many texts and a large number of public accountants thought that this was the fundamental purpose of financial accounting.[55] Not surprisingly this "orthodox" view of the balance sheet saw conservatism as a virtue.[56] Charles Couchman, later to become President of the American Institute, cautioned that conservatism "must not take the place of skillful diligence. . . ."[57] "The complicated interests of various parties" to the financial statements place the accountant under an "absolute duty . . . to bring his statements as near the truth" as possible.[58] Montgomery stated that "in the long run, ill-advised conservatism defeats its own purpose."[59]

Others suggested that the balance sheet should show current economic values. Supporters of this view argued that "legitimate appreciation of properties" should be recognized because "stockholders are entitled to information about appreciation."[60] Accountants were well aware that their unit of measure, the dollar, had fluctuated substantially since 1913. (The Bureau of Labor Statistics' wholesale price index was 73 in 1913, 123 in 1917, 162 in 1920, 102 in 1928, and 100 in 1929.) Unsettled was the issue of whether appreciation should be recognized in the accounts and shown as an increase in surplus (but not available for dividends) or simply mentioned in a footnote disclosure.[61]

There were other controversies within the profession. Should public accountants make predictions "regarding the future results of operations . . . "?[62] Montgomery stated his view tersely, "We must not prophesy."[63] Some advocated developing and auditing special purpose financial statements as well as general purpose financials. Again, Montgomery could "see no practicable or safe way of certifying . . . more than one balance sheet of the same concern at the same date."[64]

Another concern centered on the combination of the debts and assets of two legally distinct corporations. These were combined onto the balance sheet of a non-existing entity producing something called a consolidated balance sheet. This was a new, distinctly American development and accountants were still struggling over treatment of minority interests and pre-acquisition surpluses.[65]

Accountants of '29 Predict the Future

Addressing the New York State Society of CPAs at their thirtieth anniversary dinner (in 1927), George McLaughlin, a CPA who had served as Police Commissioner of New York City and State Banking

Commissioner, ventured one prediction: ". . . the day will come when it will be almost impossible to sell a security without a certified statement prepared by a certified qualified public accountant."[66] Dean Madden of the New York University School of Commerce, Accounts and Finance made the same prediction, insisting "that the word of a bank which offered securities was not a sufficient safeguard to the investing public."[67]

As industry and commerce were expected to grow larger and more complex, the training period for the public accountant would lengthen. Few accountants would start public practice before age thirty.[68] One writer in the Institute's *Bulletin* expressed his "personal hope" that a school "designed solely to fit men for the professional practice of accountancy" would be developed "in the near future." He claimed such a school would "be of incalculable value in elevating the standards of accountancy practice" and "would be to accountancy what the Harvard and Columbia law schools are to the legal profession."[69]

The "notorious" inadequacies of governmental subdivision's accounting would be the focus of corrective measures. Accountants would be rendering "all possible assistance" to charities, libraries, hospitals, and similar organizations. Some of this work would be done at no charge.[70] Cooperation with bankers would increase and accounting would be recognized as a profession by the courts, the governmental divisions, other professions, and the public.[71]

Partly as a result of public acceptance, CPAs would replace some of the lawyers on the Board of Tax Appeals. Instead of politicians, accountants and lawyers would sit on commerce, railroad, and utility commissions.[72] Many more accountants would understand the advantages of ethical behavior and the profession would be represented by one national organization (on a par with the American Bar Association or the American Medical Society).[73]

The development of standardized terminology would enable clients and the public to better understand the meaning of auditors' reports.[74] These reports would be seen as the starting point, not the stopping place for the CPA's work.[75]

These optimistic predictions were haunted by an eerie prescience that refused to leave the editorial columns of the *Journal of Accountancy*. In December 1927, the *Journal's* editor wrote about investors' lack of interest in reforms:

> Perhaps the bull market which ran so long a course made people lose sight of everything else. If there had been a falling market, a shortage of money, a psychological or an

> actual depression in business, people would have had more time to devote to reform.[76]

In April 1928:

> If, then, we are at the beginning of a bear market, what is the accountant to do about it? Is he to shut his eyes to the facts and the probabilities . . .? Let us suppose that the prediction which people are now daring to make will prove true. The dollar will return to a value of one hundred cents of 1913, perhaps. . . . In all probability the ascent of the dollar will be a long process, accompanied by much creaking and groaning. There will be suffering because of wage reduction ahead of cost-of-living reduction. There will be distress and hard times and all the other companions of radical change.[77]

In November 1928, just before the elections:

> The action of the stock market during the past few weeks is almost without precedent. The incorrigible optimism of the investing public continues. Warnings issued by authorities have no effect and the public buys and buys; stocks rise to a market value altogether out of proportion to the companies' earnings; . . . the prophets of evil prophesy on every hill—and yet the public buys again. . . . Probably there will be no violent tumble—at any rate it is devoutly to be hoped that we shall avoid panic fear—but quite evidently something must happen.[78]

Undaunted, or perhaps seeing beyond the events that so troubled the *Journal's* editor, others saw new fields of activity for the accountant in roles such as receivers and administrators, management counsellors, and public representatives on corporate boards of directors.[79]

Perhaps the final word should be given to Theodore Sterling who reported to the President of the American Institute the "true function" of the accountant as

> financial advisor, business counsellor, constructively planning with management both the intimate details and the broader policies called for by the increasing complexity of commerce and industry, the impelling urge of competition and the consequently enforced closer study of such matters as costs, efficiency, markets, taxation, consolidations, and the multitude of economic factors that con-

stitute the daily problems to be met and solved by the business world.[80]

Public Accounting in 1929: A Summary

Education and the CPA Examination:
- —Most new accountants had only a high school education.
- —Passing the CPA examination is seen as evidence of qualification as an expert auditor and accountant.
- —Successful candidates generally have four to ten years public accounting experience.
- —Only 37 states and the territories use the American Institute's examination.
- —Only ten of these jurisdictions use the Institute's grading service.

Professional Code of Ethics:
- —The subject evokes much disagreement.
- —A large number of competing public accountants are neither subject to the codes of conduct of an accounting organization nor subject to the disciplinary proceedings of their state society or licensing agency.

Legal Environment:
- —Courts consider accountants independent contractors, not members of a learned profession.
- —The accountant's liability for incompetently or negligently performed audits is generally limited to fees received for the respective engagements.
- —Accountants have neither a pecuniary nor moral responsibility to third parties who may rely on audited financial statements.
- —Legal liability insurance is becoming popular although some suggest it contravenes the accountant's responsibility to third parties.

Audit Procedure:
- —Verification of accounts receivable balances through direct communication with debtors is generally thought too costly and not especially important.
- —Except in suspicious circumstances, the auditor may rely on his client's written representation of the quality and quantity of inventory.
- —"The best modern practice of the profession" is summarized by the American Institute in its revised pamphlet "Verification of Financial Statements." The general objective of the pro-

cedures contained in the pamphlet is to facilitate the credit-granting process.

Practice and its Rewards:

—Less than 6% of 15,000 large industrial corporations have annual audits.

—Audit certificates vary widely in form and content.

—Securities prospectuses frequently report the name of the auditing firm but fail to present the audit certificate or summarize the auditor's opinion.

—Accounting terminology is not uniform.

—Due to difficulties in understanding audit certificates and the audit function itself, users of financial statements often make decisions based on the auditor's reputation, not on the information contained in the financial statements.

—The median net income of CPAs is higher than that of medical doctors, dentists, or lawyers.

FOOTNOTES

[1]American Institute of Accountants, "Collegiate Courses in Accounting," p. 8. Nissley, "A Bureau for Placing Junior Accountants," p. 64.

[2]Nissley, "A Bureau," p. 65.

[3]Nissley, "Report of Special Committee for Placements," pp. 185-86.

[4]American Institute of Accountants, "An Experiment in Choice of Staff Assistants," p. 8. American Institute of Accountants, "Special Committee for Placements," p. 8.

[5]Nissley, "Report," p. 186.

[6]American Institute of Accountants, "An Experiment," p. 7.

[7]American Institute of Accountants, "An Experiment," p. 7. Mather, p. 105. Nissley, "A Bureau," p. 68.

[8]American Institute of Accountants, "An Experiment," p. 8.

[9]American Institute of Accountants, "An Experiment," p. 8.

[10]American Institute of Accountants, "An Experiment," p 8.

[11]American Institute of Accountants, "Remuneration in Accountancy," p. 8. Lay, p. 225.

[12]An Examiner, p. 446.

[13]Lay, p. 224.

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