1967

Critical problems of the accounting profession

E. C. Leonard

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs
Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
Haskins & Sells Selected Papers, 1967, p. 017-023

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.
Critical Problems of the Accounting Profession

by E. C. Leonard
Partner, Tulsa Office

Presented before the Annual Meeting of the Kansas Society of Certified Public Accountants, Hutchinson, Kansas—September 1967

Charles Dickens started his story of A Tale of Two Cities saying:

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us...." Apparently, it is a trait of human behavior to describe one's own time only in extravagant terms and to assess one's responsibilities in a comparable fashion. Doubtless, each member of every generation of our still young profession has felt that the problems of his particular time were more critical than any faced by his predecessors. And so it is that many of us today feel we are in a period of stress possibly the most difficult of all. It is the best of times (our problem is not the expansion of our practice, but rather the control of that expansion); it is the worst of times (recruiting of an adequate staff has never been so difficult); it is the age of wisdom (the public has suddenly become aware of the fact that the "auditors have arrived"); it is the age of foolishness (many of the articles in the financial press reflect a complete lack of understanding of what an accounting firm does do, and does not do, in making an audit); it is the spring of hope (we are making progress in narrowing the areas of differences and inconsistencies in financial reporting); it is the winter of despair (A Forbes editorial stated, "It's past time CPAs were called to account for practices that are so loose that they can be used to conceal, rather than reveal, a company's true financial position"); we have everything before us (it seems inevitable that the accounting function will expand rapidly and in all directions); we have nothing before us (Jack Carey states, in The CPA Plans for the Future, "The average practitioner, making a living with yesterday's knowledge, rarely understands that he may be made obsolete by tomorrow's discoveries"). Our case may be stated in either the most positive or the most negative terms. Our past advances have been spectacular, our successes have been almost too successful, yet we are truly facing problems as critical as any our profession has ever encountered.
One of these problems has to do with the financing of our national organization, the AICPA. Just a little over twenty years ago, the budget of the American Institute was $415,000. Our budget for the current fiscal year, including the cost of our publications, is slightly more than $5,150,000, more than ten times as great. The increase in our budget in the last twenty years is indicative of the difficulties of meeting the demands that have been made on our profession by our clients, our government, investment bankers, and credit grantors. These demands have created problems that can be solved only by concerted action at the national level. Even with the increased budget, the Institute has been operating with a substantial deficit each year for the past several years. For example, that deficit for the year 1965-66 was in the amount of $235,000, and the deficit for the nine-months period ended May 31, 1967 was approximately $410,000. Projected deficits for the next three years reveal that scheduled expenditures are to exceed estimated income from all sources by an average of slightly over $600,000 a year. These anticipated deficits result primarily from four factors: the impact of inflation, additions to staff as recommended in the Structure Committee Report, improvement in the Staff Retirement Plan, and the exhaustion of funds contributed in support of the Accounting Research Program.

You will recall that the Research Program was inaugurated in 1959 at the same time the Accounting Principles Board was established. It was apparent even then that the anticipated costs of this program could not be absorbed in the regular budget. So an appeal was made for voluntary contributions to the AICPA Foundation for the financial support of that program. Slightly more than a million dollars was ultimately received. Each year the Foundation has transferred a portion of these funds to the general budget as reimbursement for the research costs expended. Last year, for example, this reimbursement had the effect of reducing the $235,000 deficit previously mentioned to one of slightly more than $20,000. Similarly, the current year’s deficit of $411,000 has been reduced to approximately $315,000. The last of these contributions to the Foundation will be transferred to the general budget in the current year.

It should be noted that relatively few firms made contributions and that the contributions did not entail a long-term commitment on the part of the donors. The projected costs of the Accounting Principles Board
and accounting research activities are estimated to be $347,000 for the year 1968-69, $359,000 for 1969-70, and $369,000 in 1970-71. The natural question that arises is whether the AICPA can financially afford to continue in this area. The even larger question is, Can we professionally afford not to continue?

In the opinion of both the Executive Committee and Council, if the Institute abrogated its efforts to improve standards of financial reporting, the stature of the accounting profession would be significantly diminished. In that event the responsibility for providing authoritative guidance on accounting principles would be grasped by others. Accordingly, a subcommittee of the Executive Committee was appointed to seek a solution to the problem by which, at least for the present, the profession would continue to provide financial support for accounting research costs without being forced to change the present dues structure of the Institute.

This committee has proposed the formation of a business league, which will have as its purpose the providing of funds for research studies in regard to accounting principles and standards. This business league will be a separate corporation from the Institute, and the Articles of Incorporation and By-laws include the necessary requirements to qualify it as a business league under section 501 (c) (6) of the Internal Revenue Code. The By-laws provide for two classes of members, namely, individual members and firm members. Any certified public accountant who is a member of an associate of the AICPA and does not employ a professional accounting staff will be eligible for an individual membership. Any firm of CPAs having at least one partner who is a member of the Institute would qualify for a firm membership. While membership in the AICPA is a prerequisite to membership in the Business League, it will be possible for a CPA to continue his membership in the Institute without joining the Business League. Dues will be based on the total number of partners and professional staff within the unit of practice. Professional staff is defined to include noncertified staff men and similar personnel, but would not include secretaries, typists, or messengers. The annual dues rates will range from $10, for sole practitioners and other individuals, up to $25,000, for firms with partners and professional staff numbering 1,300 or more.

Hopefully, all firms and practitioners within the profession will support this new program. It will ensure a relatively even distribution of the
research costs over the Institute's membership. It will avoid the necessity of immediately increasing certain dues categories as much as 40 to 50 per cent. It will relate the cost of the program to the size of the firm rather than to the number of CPAs in the firm who are members of the Institute.

Although the cost of the accounting research program is the major factor in the projected future deficits of the Institute, the underwriting of these costs outside the regular budget will not completely take care of the Institute's financial problem. The solution to that portion of the deficit caused by the impact of inflation, the additions to staff, and the improvement in the staff retirement program has yet to be provided.

ACCOUNTING RESEARCH

Assuming that the new business league will provide the necessary financing, there remains the task of properly utilizing those funds to achieve the stated objective of the research program. That objective is stated as part of the Charter of the Accounting Principles Board:

The general purpose of the Institute in the field of financial accounting should be to advance the written expression of what constitutes generally accepted accounting principles, for the guidance of its members and of others. This means something more than a survey of existing practice. It means continuing effort to determine appropriate practice and to narrow the areas of difference and inconsistency in practice.

Needless to say, it has been easier to state the objective than to attain it. Some members of our profession and some segments of the business, financial, and political communities have expressed disappointment because, in their view, we have not progressed as rapidly as they felt we should. Most, however, have more appropriately measured our attainments to date against a yardstick with an endless scale. For there are no immutable, unalterable accounting truths apart from the society that uses them. And who can argue with conviction that society today is made up of the same groups and interests as existed forty years ago? Who is willing to speculate that the social, economic, and political climates of the year 2000 will be identical with those of today? Our task involves the elimination of the less desirable accounting principles now in use, the significant modification of existing principles, and also the possible introduction of new principles not presently in use. We are not engaged in a
construction project with a detailed blueprint and completed engineering and architectural specifications to guide us. We cannot say to our questioners that we have completed the substructure and acquired the necessary material for the walls and that therefore we should be credited with a progress payment on X per cent of what we plan to accomplish.

Even when accounting research is viewed only in terms of the present, the task is not a simple one. Take, for example, the travail involved in the issuance of APB Opinion No. 8—Accounting for the Cost of Pension Plans. Research on this subject was started in the Fall of 1963, completed and published in the Spring of 1965, with 17,000 copies being distributed to members of the Institute and others. Their comments on its recommendations were carefully analyzed. An advisory group was formed, which included, among other organizations, representatives of the Society of Actuaries and the Financial Executives Institute. Several preliminary drafts were considered before a final draft was submitted to the full Board. That group spent the major portion of many meetings on the topic before completing an exposure draft in July, 1966, which was mailed to 7,000 individuals and organizations, with a request for their comments. The responses were again analyzed, revisions were made where appropriate, and the Opinion was finally issued in November of last year. Thousands of man-hours by the members of the APB, plus substantial contributions of time by other individuals, had been required to carry one project of a research program to completion. The Opinion carries out the purpose of the APB in that it does narrow an important area of difference in reporting practice. One more step had been taken in that long procession, which began in 1938 with the creation of the Committee on Accounting Procedure. That committee, in its twenty-year period of activity, issued over fifty pronouncements, which had an important effect on the development of accounting principles and practice in the United States. Certainly every firm, irrespective of its size, should be willing to do its part in underwriting the financial cost of continuing this research activity.

COMPUTERS

Another critical problem of our profession, and one of particular interest to the local practitioner, has to do with the impact of electronic data processing equipment or computers upon our practice. Many small
firms and local practitioners who rely upon write-up work as the “bread and butter” element of their practice are finding that this task and related ones can be done more quickly and at less cost by using electronic data processing equipment. In addition, some practitioners anticipate that ultimately the record-keeping function for all enterprises, regardless of size, will be performed by EDP equipment—the larger enterprises with their own equipment and the medium or smaller ventures with the purchase of time on equipment belonging to others.

For these reasons, some CPAs have acquired their own computer equipment, developed the necessary expertise, and offered EDP services to their clients as a part of their professional practice. These computers and their supporting equipment are expensive and require the maintenance of a high volume of processing work for the operation to be profitable to the owner.

As you know, Opinion No. 7 of our Code of Professional Ethics had stated that “members rendering statistical tabulating services are considered to be practicing public accounting and must, therefore, observe the by-laws and Code of Professional Ethics.” This Opinion was a substantial barrier to many CPAs because those ethical standards prevented the advertising or solicitation necessary to obtain the required volume of processing work and also prevented the use of the corporate form as the entity that would buy or lease this expensive equipment.

These ethical standards, however, would not apply to the non-CPA who offered the same type of service, with the result that the practitioner who was in a position to provide the public with his accounting expertise in conjunction with a computer capability had been unable to compete with the service bureau or entities that offered only the latter. For this reason, the AICPA committee on professional ethics has revised Opinion No. 7 to provide that: (1) a member may be an officer, director or stockholder of a corporation offering data processing service to other practitioners. Since the service would not be offered to the public, the corporation would not be considered in the practice of public accounting and in violation of the rule forbidding corporate practice. The corporation would be free to circularize other practitioners in letter form, announcing that the necessary equipment and expertise are available for their own and their clients’ benefit, but not available directly to the public; (2) a member may be an officer, director, or stockholder of an EDP corporation that offers professional services to other practitioners and
that also leases time to the public. The rental of such time does not entail a professional service, since all that is being offered is the use of the data processing equipment. Because this activity does not constitute the practice of public accounting, the ethical standards do not apply, and time may be offered to the public through general advertising and solicitation, though in such instances the names of the CPAs or even the fact that CPAs are engaged, must not be disclosed; and (3) a member may join other practitioners in a partnership to perform the full range of EDP services for practitioners and for the public. Since such services when performed for the public, however, are those of a type rendered by public accountants, all the regular ethical restraints would apply.

Although these proposed guidelines do not provide answers to all the complex questions arising in this area, they do serve as a basis by which it will be ethically possible for the professional skills of the practitioner to be joined with the recording and analytical capabilities of computer equipment in providing better service to the public.