

1956

AIA Annual report 1956; Expanding world of accounting

American Institute of Accountants

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ANNUAL

REPORT

1956

The Expanding World of Accounting



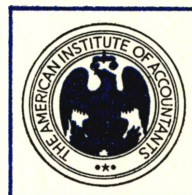
AMERICAN

INSTITUTE

OF

ACCOUNTANTS

Annual Report • 1956



A Summary of Activities

*of the National Professional Society
of Certified Public Accountants*

*AMERICAN INSTITUTE OF ACCOUNTANTS
270 Madison Avenue, New York 16, N. Y.*

Officers and Executive Committee - - 1956

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1. *The Expanding World of Accounting*

THE YEAR has brought into sharp focus many basic problems facing the accounting profession, particularly in relation to new demands being made upon it. These demands have presented the profession with both new responsibilities and new opportunities. As our whole society and economy become more complex, the application of accounting to more and more areas of modern life has become increasingly necessary.

Evidence of this trend came from many sources during the year:

- A sub-committee of the Senate Labor Committee recommended to the Congress in a bill (S. 3783) that all union welfare funds be required to submit financial statements “certified to by an independent public accountant, based upon a comprehensive audit . . . conducted in accordance with accepted standards of auditing.” Although Congress did not act on this measure in the last session, its introduction was significant.

- The New York Stock Exchange urged the appointment of an Institute committee with the objective of bringing railroad accounting — prescribed by regulation for 40 years — more into line with present-day accounting standards developed by the profession itself.

- The aid of certified public accountants was enlisted by the great voluntary associations of business and professional men who are seeking answers to the pressing financial problems of our educational system.

- A consultant to the Federal Government reported that the heavier emphasis on modern accounting in Washington may well lead to the most significant transformation in our Government’s financial management since the days of Alexander Hamilton.

- The President of the New York Stock Exchange, as well as the editors of *Fortune* magazine and *The Economist* of London, singled out the diversity of accounting standards throughout the free world as a serious obstacle to the international flow of private investment capital.

- The managements of many corporations, large and small, called

for more and more advisory services from accountants to assist them in the conduct of their company's affairs.

In the judgment of the officers of the Institute, challenges like these have deep implications for the future of the profession and now require a clear re-examination of certain fundamentals.

Could the educational and admission standards of the accounting profession, for example, be improved in view of the broader responsibilities of certified public accountants? Could the public be better protected by revised or extended state laws regulating the practice of accountancy? What new ethical guides are desirable in this expanding world of accounting? Are the profession's ranks being filled with the right people in the right numbers? Can accounting firms and practitioners better prepare themselves to handle the ever-increasing volume of work, at the same time maintaining a high quality of performance? Are certified public accountants improving their professional competence to keep pace with the new demands?

The profession has been seeking answers to these and other fundamental questions. Significant progress has been made in many areas.

Of first importance among these was the clarification of the position of certified public accountants in practice before the Treasury Department. For some time the profession has been disturbed by the implications of various state court decisions that challenged the extent to which certified public accountants could represent their clients before the Treasury Department. On January 30, 1956, the Secretary of the Treasury released a statement* confirming the time-honored right of certified public accountants to represent their clients fully before the Department. Secretary Humphrey's statement was welcomed as a major contribution to an effort already undertaken to resolve differences between the professions by friendly negotiation rather than by litigation or public dispute. In April, committees of the American Bar Association and the Institute met together

* See *Journal of Accountancy*, March 1956, p. 6, and April 1956, pp. 29-33.

to lay plans for cooperative efforts to design guideposts that may be needed by both lawyers and certified public accountants in observing the Treasury's admonition to remain within the bounds of their respective professional competences. The relations between lawyers and certified public accountants in actual practice have normally been friendly and cooperative. One of the most helpful developments of 1956, therefore, was the opportunity afforded by Secretary Humphrey's statement for the resumption of the same kind of relationship between the organizations of the two professions.

In other areas involving fundamental questions confronting the profession in 1956, essential groundwork has been done and, in the hope and expectations of the officers, this will lead to important advances in the coming months.

2. The Question of Education and Experience

Perhaps the most vital question of policy confronting the accounting profession is whether education and experience requirements established by state laws for admission to the profession are now adequate.

The title, certified public accountant, was first created more than 60 years ago. Since that time, the number of CPAs has grown to over 55,000. The scope and nature of their work, and the extent of their professional responsibility, have expanded dramatically. The early practice of accountancy was largely restricted to detailed audit of records and special investigations. Today, an audit typically consists of the examination of a company's financial statements and the expression of a professional opinion on their fairness. Other types of work have also been added: the assistance to taxpayers, the design and installation of accounting systems, surveys to increase administrative efficiency, determinations of costs, business and financial advice, engagements in connection with government

regulations, mergers and consolidations The list could be greatly extended.

Despite this broad expansion of the CPA's function, there has been no comprehensive reevaluation of the standards to be met by new recruits to the profession. This does not mean, of course, that standards have not been improved to some extent. For example, a degree of national uniformity has been achieved through the uniform CPA examination, prepared by the American Institute and adopted by all state boards of accountancy. Moreover, today's certified public accountants are far better educated than the laws of most states presently require. Although only a few states demand college education, 83 per cent of the successful candidates in a recent examination were college trained, and nine per cent had studied in graduate schools. But the improvement in standards has been irregular, uncoordinated, and without clear ultimate objectives. The resulting diversity of admission standards throughout the country has been a cause for legitimate concern.

Four years ago, the American Institute took the lead in organizing an independent Commission on Standards of Education and Experience for Certified Public Accountants, composed of 24 practicing CPAs, teachers and educational administrators, to make a comprehensive study of this problem. The work was financed by the AIA, the American Accounting Association, eight state boards of accountancy, and 32 state societies of CPAs. Last month the University of Michigan published a 170-page volume containing the Commission's findings and recommendations. A summary was sent to every member of the Institute.

The report is certain to provoke a lively debate. Five of the Commission's members, in fact, have filed dissents to specific recommendations. No one desires blind acceptance of the report. On the contrary, since its proposals vitally affect every member of the profession, it ought to be seriously considered by every member of the profession.

But at least the Commission — with "vision and courage" in the

words of Dean Stanley F. Teele of Harvard's Graduate School of Business Administration — has advanced a program for the future that clearly defines the basic issues. It has also led *The New York Times* to comment: "The report . . . may well prove to be as important for accountancy as the famous Flexner report of 1910 was for medicine and the Root report of 1921 was for the law. . . . Accountancy has come of age only in the past two decades. It is now generally recognized as an essential profession. Every organization, commercial or nonprofit, must now have an independent and impartial CPA's audit as a prerequisite for public confidence. The knowledge — both of theory and practice — required of accountants can now be compared with the intellectual requirements of medicine and the law."

Regardless of whether or not the Commission's report is adopted as a whole, the profession must obviously be prepared to launch some program designed to remedy the deficiencies in present standards.

3. The Regulation of Public Accounting

While the Commission sought answers to the question of what training ought to be required of new CPAs, the Institute has been studying the broader question of who should be legally authorized to practice as a public accountant.

About half the states and territories presently restrict only the use of the CPA title, but permit anyone to practice as a public accountant. Most of the other states have adopted laws designed ultimately to limit the professional practice of accounting to certified public accountants, after an initial licensing of all those engaged in public accounting at the time of enactment.

The American Institute has long occupied a neutral position on

this issue of so-called “permissive” *versus* “regulatory” legislation. At its spring meeting last April, however, the Council of the Institute voted by a two-to-one margin to abandon this negative attitude. The action of the AIA’s governing body followed an extensive review of the current legislative situation by the Institute’s state legislation committee and its executive committee. Both recommended a policy favoring legislation that would establish measures of control and standards of competence for all those engaged in the professional practice of accounting. This would enable the public to distinguish more readily between those who have been required to demonstrate professional responsibility and those who have not. The proposed legislation, in the view of the two committees, should provide for an initial registration of public accountants in practice at the time of its passage; but there should be no further registration of public accountants after an announced cut-off date nor any reopening of registration in the states where it has already been closed under regulatory statutes. The public would be ill served by a continual licensing of two classes of accountants under similar titles but with different standards.

The Council instructed the committee on state legislation to prepare a statement of provisions that might be incorporated in a regulatory bill. This draft is being submitted to the Council for consideration during the annual meeting of the Institute in Seattle.

If the committee’s proposals receive Council approval, the Institute will be able to exercise positive leadership in the field of legislative control of public accounting for the first time in almost a decade. No one, of course, is under any illusion that state legislatures can be persuaded overnight to adopt the profession’s ideal of greater uniformity in the statutory recognition of public accountants — any more than the recommendations of the Commission on Standards of Education and Experience for CPAs can be swiftly translated into law.

But once again the profession’s course of action will have been clearly charted by agreement on a long-range objective.

4. *New Challenges in Ethics*

A similar basic review of the profession's rules of conduct has been started this year by the ethics committee of the Institute.

The need for such a re-examination has been created by the changing times. Much of the existing code is concerned with the CPA's role as an independent auditor. The organized profession must be prepared to answer the question whether, or under what conditions, the auditor's independence might be impaired by the rendering of other types of accounting service to the same client — such as tax or management services. Moreover, the rapid expansion in the scope of accounting service in response to business demands is requiring greater competence in a growing number of specialities within the field of accounting. What guides can be provided to aid the CPA in determining the extent of his professional competence and responsibility? This question acquires added importance from the Treasury Department's statement of January 30, 1956, which imposes upon CPAs and lawyers an ethical responsibility to respect the field of the other in practice before the Treasury. What are proper standards of ethical conduct for CPAs in tax practice? What are their responsibilities to the taxpayer and the government? What ethical concepts apply to management services by CPAs? The public has the right to expect the profession to answer these and other questions.

The membership of the Institute last fall approved a by-law change to permit the enlargement of the ethics committee from five to 15 members. This has enabled the committee to embark upon an ambitious study of suggested changes in the present rules of conduct without impairing its advisory and enforcement functions.

Meanwhile, the major ethical questions which confront the profession will be discussed in *Professional Ethics of Certified Public Accountants* — a new version, completely rewritten and greatly expanded, of a book which has served as a guide on professional conduct for the last

ten years. It will be published by the American Institute later in the fall.

At the same time, the continuing work of maintaining ethical standards has proceeded. Five members of the Institute were expelled or suspended for violation of its rules of professional conduct; some two dozen formal complaints were investigated; several hundred inquiries were answered by the ethics committee or by the AIA staff on the basis of precedent.

5. The Tasks of Accounting Research

The research program of the Institute has been expanded to include consideration of some accounting areas that promise to grow in significance over the coming years.

A new committee has been engaged in a preliminary study of management services by accountants. It is recognized that most CPAs have been rendering some services of this nature for a long time — generally on a rather informal basis. The committee expects to release soon a classified list describing in concrete terms the principal management areas in which CPAs are qualified or might become qualified to render useful services. It hopes, in addition, to encourage more CPAs to develop an interest in the field.

The far-reaching impact of electronics on accounting and auditing is being explored by another committee. The development of high-speed data-processing machines is so recent that most people have only a hazy notion of its ultimate effect; but it already seems clear that electronics is fast becoming a vital factor in the accounting, and consequently in the auditing, of large business enterprises and might become an important one among smaller companies in the course of time.

The application of statistical methods to auditing is still another intriguing area of research. These methods offer the possibility of provid-

ing an objective standard for the determination of how much audit sampling is necessary in a given situation. The Institute is undertaking a study of this subject. It is too early to predict results, but the profession cannot afford to delay investigation of the potential usefulness of statistical techniques as an auditing tool.

This research in promising new fields should not be allowed to obscure current developments of more immediate interest.

RAILROAD ACCOUNTING • A special committee was appointed early in June to cooperate with the Interstate Commerce Commission in a study of the present divergencies between accounting practices of railroads and generally accepted accounting principles followed in other industries. These divergencies have prevented CPAs from expressing opinions on railroad financial statements in the language of the profession's standard report. This, in turn, has caused concern in the financial community.

Two new publications are scheduled for release in the next few weeks.

BROKERAGE AUDITS • Under the requirements of the SEC and various stock exchanges, practically all stock brokerage concerns have to submit audited reports to jurisdictional agencies. Not all CPAs are familiar with the unusual problems that are often encountered in brokerage audits. A new booklet will seek to aid practitioners by suggesting appropriate auditing standards and procedures in the handling of these highly specialized engagements.

COOPERATION WITH BANKERS • Another new publication is part of the Institute's sustained effort to promote mutual understanding between bankers and CPAs. It provides straight-forward answers to the 40 questions most often asked by bankers about accountants' audit reports.

ACCOUNTING PRINCIPLES AND AUDITING PROCEDURES • Several Accounting Research Bulletins and Statements and Case Studies on Auditing Procedure were published last year as part of the Institute's continuing program to narrow the areas of difference in financial reporting, and to

provide objective standards of independent auditing. The possibility of developing a comprehensive statement of accounting principles is also being explored.

6. Opportunities for Public Service

More than ever before, CPAs are being given the chance to contribute their knowledge and skills to the solution of problems of great public interest.

SCHOOL ACCOUNTING • One of the most pressing of these problems is the financial strain put upon the nation's educational system by the unprecedented rise in population. In 1956 a committee named by the Institute to review a new national accounting manual that will increase comparability of the financial records of the nation's 40,000 active school districts completed its work. At its last annual meeting the Institute heard an address by Roy E. Larsen, Chairman of the Citizens' Commission for the Public Schools, who requested the profession's help in meeting the fiscal crisis of public education. The Institute has been exploring the methods by which this help may be made available on a local, regional and national level during the next year.

GOVERNMENT ACCOUNTING • CPAs have had an important part in promoting a modern approach to accounting in the federal government. Some of them have done so through service to such public-spirited groups as the Hoover Commission. Others — like Percival F. Brundage, Director of the Budget, and William B. Franke, Assistant Secretary of the Navy — have taken top posts in Washington and with a devoted band of career officials have fought for further improvements in the government's financial management. Three of the newer public servants from the accounting profession — Joseph E. Campbell, Comptroller General of the United States; Maurice H. Stans, Deputy Postmaster General; and Russell C. Harrington,

Commissioner of Internal Revenue — were honored in the capital last spring at an Institute-sponsored banquet attended by many leaders in both the executive and legislative branches of government.

TAXATION • Certified public accountants also have challenging opportunities to assist in perfecting our income tax structure.

They have already done a great deal. Through its federal taxation committee, the Institute this year submitted more than 200 recommendations for improvements in the 1954 Revenue Code. It reviewed scores of proposed regulations and significant rulings issued by the Treasury Department. It alerted tax practitioners to the problems created by the Code in a series of articles that began in the August issue of *The Journal of Accountancy*. It continued to prepare (and state societies of CPAs continued to distribute) radio, television and printed material that have assisted literally millions of citizens in fulfilling their tax obligations.

Yet much more remains to be done.

There is a growing concern in Washington and elsewhere over the complexity of our tax system and the eroding effect of special provisions enacted to correct inequities or provide economic incentives. This discontent has led to suggestions for a comprehensive and non-partisan study of the whole tax structure — a study, incidentally, which the Institute advocated more than ten years ago. The Institute's tax committee is giving intensive study to this broad problem. CPAs would obviously have a prominent part in any re-appraisal of the tax system. They are in a unique position to evaluate carefully the impact of taxes upon the public and our economy. Moreover, their reputation for independence encourages confidence in the objectivity of their recommendations. Thus the future may hold an even greater challenge to CPAs for public service than the past.

Only a few of the questions of broad public interest whose solutions might be facilitated by the disciplines of accounting have been mentioned here. There are simply too many of them. They exist on the local level — for example, the efficient operation of local governments, particularly in

new communities created by the shifts of people to the suburbs. And they exist on the international level — for example, the extent to which diverse accounting standards retard the flow of investment capital. As *Fortune* magazine recently declared: “U. S. business has something more to give the world than . . . lessons in American salesmanship and mass production. That something is truthful reporting of what goes on. The certified public accountant is now as much part of the U. S. scene as the corporation lawyer. Abroad, he still has an unlimited world to conquer. . . .”

7. *The Personnel Shortage Continues*

The profession’s ability to make such contributions to the public welfare — as well as furnish a more diversified accounting service to business — may well depend on its finding a solution to one of its own critical problems: the shortage of high-calibre personnel. For, despite a phenomenal growth in the number of CPAs, the demand continues to exceed the supply.

The Institute has been conducting for some time an ambitious campaign to attract top-flight young people to the profession. It has made extensive use of its career motion picture, *Accounting: The Language of Business*, which has now been seen by nearly 35 million people at live showings and via television. It has distributed more than 50,000 copies of two recent booklets outlining the exciting opportunities available to qualified youngsters in accounting. It has assisted state societies in sending spokesmen for the profession into hundreds of schools and colleges.

The ultimate effect of this campaign can hardly be anything but helpful. There can be little question, however, that the drive has not yet succeeded in producing an adequate number of well-qualified recruits to the ranks of the accounting profession. In fact, there was even a slight decrease in the number of CPA candidates this year.

The need of the profession to obtain a fair share of the better brains

of the younger generation requires sustained effort, not only by the profession's organizations, but by their individual members as well.

8. The Continuing Education Program

The personnel shortage can be alleviated — though not wholly cured — by improving the abilities of existing staffs. The Institute's continuing education program is the modest beginning of an effort to accelerate that process.

The first course, on report writing, has already been conducted in nine states. Two additional courses for organized group study were completed and given a preliminary tryout this year. One of these, on the administration of a tax practice, was tested in the classroom last fall; the other, on accountants' legal responsibility, was tried out during the spring. Two other courses are already in preparation, and at least one of them is expected to be used experimentally in the next few months.

But there are many problems in the area of continuing education that will require considerably more research and experimentation — including a review of what other professions have done in this field. It has been suggested that a staff training manual for use by smaller firms would be helpful — and the Institute assisted in developing an experimental staff-training course for this purpose in Michigan last year.

The Institute's current efforts in continuing education must be frankly recognized as a mere beginning; but the foundation has been laid for a program whose ultimate dimensions may be far greater than anyone can now foresee.

9. The Economics of Accounting

The profession's hopes cannot be realized unless accounting firms and practitioners continue to be healthy economic units. The pursuit of

wealth can never be a major goal of a professional man; but he cannot serve his clients effectively, nor improve his ability to do so, if he is constantly preoccupied with the problem of paying the family bills.

Some insight into the economic status of CPAs may be derived from a survey conducted by the newly-created Institute committee on professional statistics. It is expected to file, within the next few weeks, a preliminary analysis of the replies to a questionnaire which covers accountants' income, types of services, staff compensation, and other important aspects of practice.

Another committee is consulting a representative group of experienced practitioners on their methods of determining fees — largely to discover the weight given to various factors in fee-setting: not only the time consumed, but the complexity of the work performed; the status of the personnel assigned to it; the knowledge, experience and judgment required to do it; the degree of responsibility assumed; the magnitude of the amounts involved; the value of the results to the client. No rigid rule can measure these elements in every situation. Nonetheless, the committee's reports ought to be helpful, to younger members particularly, in dealing with one of the most complex and difficult phases of conducting a professional practice.

Further assistance in developing successful client relations may be obtained from a little booklet published this month by the Institute, which reports the methods used by a number of successful CPAs in attempting to maintain adequate communications with clients. The booklet offers no formulas — for there are no formulas in this highly individual area. Its aim is much more modest: to encourage practitioners to give thought to client relations and to stimulate frank discussions of the subject.

Like the continuing education program, these efforts to assist members in some aspects of the management of an accounting practice are little more than a beginning. Much more needs to be done; much more will be done in the months ahead.

10. *The Basic Aims of the Institute*

The profession's mood of self-appraisal has been reflected in the policy-making bodies of the Institute.

The executive committee, for example, has been holding two-day meetings throughout the year so that at least one full day could be devoted to re-examination of broad policies and long-range objectives in various areas. Its study of the issues involved in legislative control of the profession, together with the work of the state legislation committee, led to the Council's vote last spring to discard its past policy of neutrality.

THE INSTITUTE'S PURPOSES • The executive committee has also undertaken a review of the overall purposes of the Institute.

One aspect of this review involves a re-examination of the question of whether certified public accountants not in public practice should serve on the committees and governing body of the Institute.

CHANGE OF NAME • This concern for fundamentals also prompted the committee to recommend to Council that the proposal for changing the name of the Institute to the American Institute of Certified Public Accountants be re-submitted to the membership — in the belief that this change would identify the Institute more clearly as the national organization of certified public accountants.

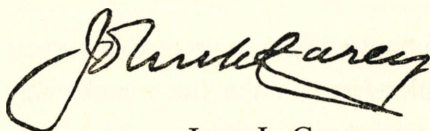
PUBLIC ACCEPTANCE • There has been a similar re-examination of the public relations problems of the accounting profession. The executive committee asked Earl Newsom & Company, the Institute's public relations counsel, to study the Institute's program and to propose a general course on which the Institute might proceed toward earning greater public understanding for the accounting profession.

The thoughtful memorandum submitted in answer to this request has already been distributed in pamphlet form to the full membership under the title, *The General Recognition of Accountancy as a Profession*. It concludes with these words: "The profession needs to *reveal itself* —

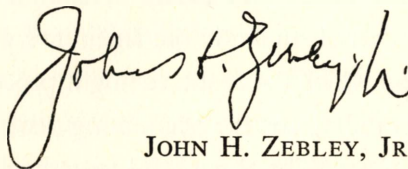
positively, with assurance, naturally, consistently. It needs to become known for what it is — the one ‘discipline’ in the business community in an age when the total American society is primarily a business society, when the national strength depends upon such factors as the credit structure and the orderly flow of investments, and when an expanding economy and an accelerated technological development promise to make the tasks of management more complex and therefore more dependent on skilled professional aides. The profession needs to ask itself, from time to time, whether it is doing all that it can to bring about this broad general knowledge. From time to time, also, as it enters new phases of its history, it needs to consider whether it is reaching out to take advantage of all those opportunities of leadership and service that occur to professions as distinct from other groups.”

In this report some of the Institute’s activities toward these ends — to forecast future needs and prepare to meet them — have been discussed. In the supplement that follows there is a report of the basic facts and figures relating to many of the Institute’s continuing activities and services. These activities and services are of proved importance to the profession and form a significant part of the Institute’s program.

No summary or digest, however, can provide more than a glimpse of the work of the Institute as a whole. The complete reports of officers and committees, which are available to members on request, will reveal more clearly the true dimensions of the year’s efforts.



JOHN L. CAREY
Executive Director



JOHN H. ZEBLEY, JR.
President

Facts and Figures on Continuing Activities

FINANCIAL CONDITION • The Institute's revenue for the current fiscal year exceeded \$1.6 million. It is expected to approach \$1.7 million in 1956-57. The full financial story will be found on pages 21-24.

MEMBERSHIP GROWTH • The membership at the close of the fiscal year was 27,850 — an increase of 1,505. Membership losses from resignation and non-payment of dues continue to run a little over one per cent.

COMMUNICATIONS WITH MEMBERS • Officers and staff brought news of the Institute to the membership (and sought membership opinion to guide AIA policies) on a series of field visits to 44 cities this spring. These were in addition to the 123 speaking engagements arranged by the speakers' bureau, which also assisted in the planning and press coverage of four regional conferences.

The AIA's monthly bulletin, *The CPA*, was redesigned.

A new advisory committee of staff accountants was appointed as a means of insuring adequate consideration of the interests of this important segment of the membership.

COMMITTEES • The committees of the Institute, which perform the major part of its work, held more than a hundred meetings last year.

THE CPA EXAMINATION • The November (1955) and May (1956) uniform examination was given to 19,842 candidates — a six per cent decrease from the number taking the two previous examinations. With the addition of Pennsylvania, all but three states now submit papers for evaluation by the AIA's advisory service.

THE TESTING PROGRAM • Use of the AIA's objective tests for measuring accounting aptitude and achievement in both guidance work and employment showed a substantial percentage increase.

INSURANCE PROGRAM • Insurance in force under the Institute's group life insurance program has reached \$150 million. The program is to be extended about January 1, 1957, to sole practitioners without staff.

LIBRARY AND TECHNICAL INFORMATION SERVICE • The library – which now houses nearly 38,000 books and pamphlets – received 11,000 visitors, responded to 20,000 inquiries, circulated over 10,000 publications to members on request. The research department's technical information service handled 1,300 questions on accounting and auditing problems.

AIDS TO THE STATE SOCIETIES • State societies of CPAs added 2,000 members to their rosters (total: 34,000). Four more of them hired executive secretaries, bringing the number of societies with full or part-time paid assistance to 31.

The Institute produced an operating manual for societies without staff help, issued a pamphlet on effective meetings, and inaugurated a quarterly newsletter for the exchange of ideas on state society management and projects.

PUBLICATIONS • Distribution of *The Journal of Accountancy* – the profession's major technical magazine – reached an all-time high of 82,500 copies.

Some other publications released during the year:

Accounting Research Bulletins

No. 45 – Long-Term Construction-Type Contracts

No. 46 – Discontinuance of Dating Earned Surplus

No. 47 – Accounting for Costs of Pension Plans

Statements on Auditing Procedure

No. 26 – Reporting on Use of Other Procedures

Accounting Terminology Bulletin

No. 3 – Book Value

Case Studies in Auditing Procedure

No. 10 – A Smaller Commercial Finance Company

No. 11 – A Hospital

Case Study on the Extent of Audit Samples

Accounting Trends and Techniques, Ninth Edition (1955)

Survey of Consolidated Financial Statement Practices

With the exception of the accounting trends and techniques study, a free copy of each of these publications was sent to all members.

FRANKE, HANNON & WITHEY

CERTIFIED PUBLIC ACCOUNTANTS

444 MADISON AVENUE

NEW YORK 22, N. Y.

HOWARD A. WITHEY
RAYMOND J. HANNON
WILLIAM J. FARREY
WILLARD R. SCHILLER

MEMBERS
AMERICAN INSTITUTE
OF ACCOUNTANTS

To the Members of the
American Institute of Accountants

We have examined the balance sheets at August 31, 1956 of the American Institute of Accountants, the American Institute of Accountants Foundation and the American Institute Benevolent Fund, Inc., and their related statements of income and expense and fund transactions for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income and expense and fund transactions of the aforementioned organizations present fairly their financial positions at August 31, 1956, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Franke, Hannon & Withey

New York, N. Y.
September 14, 1956

American Institute of Accountants

COMPARATIVE BALANCE SHEET

August 31, 1956 and 1955

GENERAL FUND

ASSETS			LIABILITIES AND FUNDS		
	1956	1955		1956	1955
Cash, including funds in savings accounts	\$ 248,748	\$ 568,275	Liabilities:		
Marketable securities, at cost (quoted market 1956 \$959,424; 1955 \$548,152)	943,516	543,200	Accounts payable and accrued expenses	\$ 41,209	\$ 55,747
Accounts receivable, trade and other	70,174	57,038	Due to Elijah Watt Sells Scholarship Fund	39	38
Inventories, at cost	36,577	16,169	Dues collected in advance...	41,248	55,785
Prepaid expenses	15,286	9,307	Subscriptions and advertising unearned	233,267	223,543
Furniture and equipment, at nominal value	1	1	Contingency fund (Note) ..	400,000	231,529
			Income retained for working capital	213,269	295,686
	\$1,314,302	\$1,193,990		\$1,314,302	\$1,193,990

ENDOWMENT FUND

Cash	\$ 590	\$ 9,344	Principal of fund	\$ 237,000	\$ 236,481
Marketable securities, at cost (quoted market 1956 \$480,168; 1955 \$417,531)	236,409	227,136			
Library books, furniture and equipment, at nominal value	1	1			
	\$ 237,000	\$ 236,481		\$ 237,000	\$ 236,481

ELIJAH WATT SELLS SCHOLARSHIP FUND

Marketable securities, at cost (quoted market 1956 \$1,485; 1955 \$1,626)	\$ 1,532	\$ 1,532	Principal of fund	\$ 1,571	\$ 1,570
Due from general fund	39	38			
	\$ 1,571	\$ 1,570		\$ 1,571	\$ 1,570

STATEMENT OF CHANGES IN FUND BALANCES

Year Ended August 31, 1956

	Income Retained for Working Capital	Contingency	Endowment
Balance, beginning of year	\$ 295,686	\$ 231,529	\$ 236,481
<i>Add or (deduct):</i>			
Excess of income over expense	86,054	—	—
Transfer between funds	(168,471)	168,471	—
Gain on sale of securities	—	—	519
Balance, end of year	\$ 213,269	\$ 400,000	\$ 237,000

NOTE: Assets of the General and Contingency Funds were merged September 1, 1955.

American Institute of Accountants

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Years Ended August 31, 1956 and 1955

INCOME

	<u>1956</u>	<u>1955*</u>
Dues, application and reinstatement fees.....	\$ 775,769	\$ 712,098
Fees from state boards of accountancy.....	181,451	185,899
Sale of publications other than The Journal of Accountancy, less production costs	153,498	122,879
The Journal of Accountancy:		
Subscriptions earned from non-members, sale of single copies, etc., less pro-		
duction costs	237,783	213,000
Advertising	196,590	180,136
Income from investments, including similar income from American Institute of		
Accountants Foundation for library expense.....	42,890	38,784
Gain on sale of securities.....	—	111,242*
Sundry income	12,891	724
TOTAL INCOME.....	<u>\$1,600,872</u>	<u>\$1,564,762</u>

EXPENSE

Salaries, technical fees and social security taxes.....	\$ 645,460	\$ 638,310
Fees for preparing uniform CPA examinations and grading papers.....	114,224	119,478
Professional fees of public relations counsel.....	37,909	—
Pensions	29,203	22,379
Legal and auditing.....	12,576	5,982
Stationery, printing, postage, telephone, supplies and other expense.....	98,875	97,207
Equipment and equipment maintenance.....	13,742	15,637
Rent, electricity, insurance, etc.....	104,288	88,013
Publications sent to members, including The Journal of Accountancy and The CPA	138,039	104,297
Expense of annual, council and executive committee meetings.....	32,160	26,127
Travel	21,583	17,661
Technical and other committee expense.....	29,234	18,090
Federal government information and public information.....	21,258	13,860
Program materials for state societies and expense of state society staff meetings..	4,405	7,123
Library books and magazines.....	6,951	6,170
Advertising and promotion (publications and The Journal of Accountancy)....	76,678	75,126
Special projects:		
Development of accounting personnel.....	12,757	20,225
Commission on CPA standards.....	12,845	—
Expenses in connection with accountants' position in tax practice.....	100,917	229,713*
Information booklet for CPA candidates.....	1,714	4,706
TOTAL EXPENSE.....	<u>\$1,514,818</u>	<u>\$1,510,104</u>
EXCESS OF INCOME OVER EXPENSE.....	<u>\$ 86,054</u>	<u>\$ 54,658</u>

* Adjusted to include for comparative purposes transactions of the Contingency Fund set forth in previous year's annual report as a separate fund.

UNIFORM CPA EXAMINATIONS—INCOME AND EXPENSE

Years Ended August 31, 1956 and 1955

	<u>1956</u>	<u>1955</u>
Fees from state boards of accountancy.....	\$ 181,451	\$ 185,899
Expenses:		
Fees for preparing examinations and grading papers.....	\$ 114,224	\$ 119,478
Salaries and social security taxes.....	38,139	36,269
Supplies, mailing, shipping and printing.....	14,656	16,953
Telephone and telegraph.....	454	590
Insurance on examination papers.....	331	312
Equipment and equipment maintenance.....	318	1,018
Rent	10,800	18,000
Expense of meetings and sundry.....	3,282	1,580
TOTAL EXPENSE.....	<u>\$ 182,204</u>	<u>\$ 194,200</u>
EXCESS OF EXPENSE OVER INCOME.....	<u>\$ 753</u>	<u>\$ 8,301</u>

American Institute of Accountants Foundation

COMPARATIVE BALANCE SHEET

August 31, 1956 and 1955

	1956	1955
Assets:		
Cash	\$ 10,662	\$ 10,714
Marketable securities, at cost (quoted market 1956 \$93,832; 1955 \$88,596) ...	65,025	66,609
Principal of fund	\$ 75,687	\$ 77,323

COMPARATIVE STATEMENT OF INCOME AND EXPENSE
AND CHANGES IN PRINCIPAL

Years Ended August 31, 1956 and 1955

Income from securities less custodian fees – contributed to American Institute of Accountants for library expense	\$ 3,838	\$ 3,447
Principal, beginning of year	\$ 77,323	\$ 77,121
Contributions received	44	15
Gain or (loss) on sale of securities	(1,680)	187
Principal, end of year	\$ 75,687	\$ 77,323

American Institute Benevolent Fund, Inc.

COMPARATIVE BALANCE SHEET

August 31, 1956 and 1955

	1956	1955
Assets:		
Cash	\$ 12,280	\$ 11,390
Marketable securities, at cost (quoted market 1956 \$200,676; 1955 \$169,783)	152,744	135,702
Balance of fund	\$ 165,024	\$ 147,092

COMPARATIVE STATEMENT OF INCOME AND EXPENSE
AND CHANGES IN FUND BALANCE

Years Ended August 31, 1956 and 1955

Contributions	\$ 24,114	\$ 15,466
Income from investments	6,542	5,444
TOTAL INCOME	\$ 30,656	\$ 20,910
Expense:		
Assistance to members	\$ 12,394	\$ 8,945
Stationery, printing and other expense	411	396
TOTAL EXPENSE	\$ 12,805	\$ 9,341
Excess of income over expense	\$ 17,851	\$ 11,569
Gain on sale of securities	81	—
Balance of fund, beginning of year	147,092	135,523
Balance of fund, end of year	\$ 165,024	\$ 147,092