1943

Reports of officers, council, and committees, 1942-1943

American Institute of Accountants

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1942-1943
Reports of Officers, Council, and Committees

American Institute of Accountants
1942-1943
Reports of Officers, Auditors, Council, Board of
Examiners, Committees, Boards of Trustees
of Foundation and of Benevolent Fund,
Advisory Council of State
Society Presidents
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American Institute of Accountants
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Introductory Note

COUNCIL of the American Institute of Accountants resolved that the customary yearbook be omitted for the fiscal year 1943-1944. Therefore, the committee reports normally published in the yearbook are being issued to the members in this pamphlet form. A list of members and associates admitted since the appearance of the 1942 yearbook last spring will be sent to all members early in 1944. The decision to omit one issue of the yearbook is based on the desire to conserve paper and manpower. The 1943-1944 edition of the yearbook will be published next fall.

JOHN L. CAREY, Secretary

13 East 41st Street, New York
December 15, 1943
The Institute during this second year of our country's active participation in the war has had many problems to meet, which, by the unselfish services of members, committees, staff, and officers, have, I believe, been handled in such a creditable way that its position as the national organization of professional accountants has been continually and consistently improved and extended. Our members are gladly serving in the armed forces, wherever the authorities decide they can serve best; they have been assigned to some of the most important positions connected with the fiscal affairs of the Army and the Navy, and their technical skill has been recognized in almost every war agency engaged in the supreme task of organizing, administering, and financing the winning of the war. Those in the armed forces, whether as privates, non-commissioned or commissioned officers, have acquitted themselves in a manner which leaves those of us who have not been privileged to be in uniform determined to render the finest accounting possible of our own services in civilian work. This has ranged all the way from air warden and other forms of civilian defense work, to civil air patrol, selling war bonds, membership on rationing boards and on a national scale, key positions in the accounting and auditing branches of the Army, the Navy, the Maritime Commission, the War Production Board, the Office of Price Administration, and the Reconstruction Finance Corporation. Six special war committees have devoted a great amount of time to assisting in every possible way to the objective of providing the most effective use of the nation's productive capacity and manpower; these committees were appointed at the beginning of the year to deal with the particular kinds of problems indicated by the names of the committees:

Methods of Limiting War Profits
Government Audit of Contractors Costs
Priorities and Allocations
Statistical Reports by Industry
Price Control
Accounting Manpower

During the year an additional group whose work has had special significance has been giving particular attention to the standing of the certified public accountant in relation to government, and the attitude of governmental agencies toward the work of professional accountants.

It would be impossible without combing our roster of more than seven thousand members, to single out for particular mention members who have rendered especially outstanding services. I do, however, wish to call to your attention the fact that the Army has as director of its fiscal division, Army Service Forces, Major General Arthur H. Carter and that the Navy has as chief of the cost and audit division of the Office of Procurement and Materiel Commander Norman L. McLaren, who entered the Navy last year during his term as president of the Institute. We pay sincere tribute to the following members who have either made the supreme sacrifice for their country or have been reported missing:

Ensign Walter S. Savage, Jr.—died in service at Pearl Harbor.
Major Howard Hinman—reported missing on Bataan.
Ensign Harry E. Black—killed on active duty as a Naval Aviator.
Lt. James M. Dodson—reported missing in action while acting as a navigator on a Flying Fortress over Germany.

Those of us left in public practice have been loaded with more complicated questions on which clients have needed our help than have been presented since 1918, the intricacies of renegotiation, wage stabilization, excess-profits tax computations and claims for relief therefrom, victory tax, withholding tax, declarations of estimated tax liability, and trying to convince clients that congressional talk of forgiveness of a portion of the 1942 or 1943 tax really had the result of increasing their taxes for the current year rather than reducing their liabilities. With personnel much reduced and work greatly increased, we have all tried to stretch out the hours and render the best service possible. Recognizing the inability of members of state societies and others throughout the country to devote time to the preparation of programs for meetings of their
members, several officers of the Institute during April and May presented programs at eight cities—Boston, Philadelphia, Baltimore, Atlanta, Memphis, St. Louis, Detroit, and Indianapolis—at meetings sponsored by state associations or local chapters. These sessions were all well attended and accountants generally as well as the Institute received much favorable publicity through the timeliness of the subjects which were covered so thoroughly by my associates on these programs. Your officers have attended many other meetings of accounting societies throughout the country and it was my privilege to represent the Institute at the 41st annual meeting of the Dominion Association of Chartered Accountants. Such meetings give us the opportunity to work together and interchange opinions with others who have similar interests, and are basically important in developing the professional character of our thought and work. Recently there appeared in The Accounting Review the following interesting statement on professional attributes which was quoted from an address by Dr. W. E. Wickenden, president of Case School of Applied Science:

"What marks off the life of an individual as a professional? First, I think we may say that it is a type of activity which is marked by high individual responsibility and which deals with problems on a distinctly intellectual plane. Second, we may say that it has a motive of service, as distinct from profit. Third, is the motive of self-expression, which implies a joy and pride in one's work and a self-imposed standard of workmanship—one's best. And fourth, is a conscious recognition of social duty to be accomplished, among other means, by guarding the standards and ideals of one's profession and advancing it in public understanding and esteem, by sharing advances in professional knowledge, and by rendering gratuitous public service, in addition to that for ordinary compensation, as a return to society for special advantages of education and status.

"Next, what are the attributes of a group of persons which mark off their corporate life as professional in character? I think we may place first a body of knowledge (science) and of art (skill) held as a common possession and to be extended by united effort. Next we may place an educational process of distinctive aims and standards, in ordering which the professional group has a recognized responsibility. Third in order is a standard of qualifications, based on character, training, and competency, for admission to the professional group. Next follows a standard of conduct based on courtesy, honor, and ethics, to guide the practitioner in his relations with clients, colleagues, and the public. Fifth, I should place a more or less formal recognition of status by one's colleagues or by the state, as a basis of good standing. And finally, an organization of the professional group based on common interest and social duty, rather than economic monopoly."

This statement is strikingly descriptive of our own growth and development, both individually and as an organized group. We evidence our belief in high individual responsibility and a self-imposed standard of workmanship by the independent character of our reports and the expression of opinion resulting from our work. Each of us recognizes and repays to a greater or less degree his obligation to his community whether it be local or national, by gratuitous service. The body of knowledge and skill which we acquire is studied and coordinated by our research department and our committees on accounting and auditing procedure; our committee on education and the board of examiners pass on admission to the professional group, and the committee on professional ethics passes on any apparent infringement which may transgress the proper standard of conduct based on courtesy, honor, and ethics to the end that the practitioner has honorable relations with clients, colleagues, and the public.

The Institute has made fine progress during the year from the point of view of increased membership, improved financial condition and, most important of all, from the point of view of accomplishment, as will appear from the reports of other officers and chairmen of committees. As the value of its work becomes more evident, those qualified individuals who expect to make accounting their life work are sure to desire membership and an active participation in its affairs. How well we continue our record of accomplishment depends to a considerable extent on keeping the interested services of the fine group of capable and intelligent men and women
who handle the vast amount of important work that flows through our office. At the meeting of the Institute's council in May, 1943, a pension plan for the Institute staff was adopted, for the twofold purpose of providing an incentive to employees to remain in their jobs, thus giving the Institute the benefit of their cumulative experience in a type of work which requires long training, and to provide out of current income for retirement payment for members of the staff who reach retirement age after having spent a substantial part of their working lives in the employ of the Institute.

The profession as a whole has many basic problems to which our efforts should be directed. Without intending to suggest these points as an all-inclusive list, I should like to make brief observations concerning three of these problems.

(1) We should try to provide and extend a proper and adequate public understanding of the profession's concept of independence of judgment in our expressions of opinion as the result of our work. We must be no more subject to influence by governmental authority than by the desires of management.

(2) We should recognize the opportunity and the obligation of the profession, because of its peculiarly intimate knowledge of taxes, to continue our efforts to simplify and rationalize the federal tax system, and to bring order out of the existing chaos.

(3) We should take a decided stand in furnishing constructive thought in the formulation of and obtaining the acceptance of proper accounting principles, rather than yield this leadership to governmental regulatory agencies who do not have the basis of experience which must of necessity provide the foundation for the determination of such principles.

No one could serve as president of this organization without having a feeling of gratitude for the privilege that it has been to extend widely one's acquaintance with so many members of this profession, and I wish to express to you all my sincere appreciation for having had this honor. I hope I may continue to work for the Institute for many years to come after turning over the honors of office today to one so thoroughly representative and capable.

George S. Olive, President

Reports of the Secretary

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The work of the Institute has come to be almost entirely concentrated on wartime problems. The war program adopted by the executive committee last fall deliberately subordinated a large part of the existing activities to intensification of work related to the war effort. Problems of war-contract auditing, renegotiation and termination, the presentation of corporate financial statements under wartime conditions, taxation, manpower problems under Selective Service, and related problems of spreading work through extension of time for filing tax returns and other financial reports, have been among the major subjects of consideration by Institute committees and staff. Through The Journal of Accountancy, proceedings of the annual meeting, The Certified Public Ac-
countant, research bulletins, statements on auditing procedure, special letters to the membership, and addresses by officers and committee members, the Institute has attempted to keep the profession informed promptly and fully of important developments in all these areas. Close working relations have been established and maintained with war agencies dealing with accounting problems, and Institute committees have given them assistance in the solution of specific questions.

Work has continued in several fields not directly related to the war effort in order to keep up the standards of the profession, and to permit its continued efficient operation; for example, in the fields of the standard CPA examination, professional ethics, and relations with the Securities and Exchange Commission.

Details of all activities will be presented in the reports of the several committees,
The Staff

It is always difficult to report separately the activities of the Institute's staff, because in almost every project the work of the committees and the staff is inseparable. There is almost no committee which does not receive some measure of assistance from the staff, and there is practically no staff work in which committee supervision or advice is not a factor. The nature of the subject matter and of the circumstances determine in each instance the degree and extent of staff work.

At the present time the Institute's staff is short-handed. From a maximum of 39 in 1941, the number of employees in the Institute has dropped to 32 at the present time. These figures do not include part-time or occasional services rendered to the board of examiners and the committee on professional ethics on a fee basis. Of the present 32 employees, three are recent replacements who are not yet thoroughly familiar with their jobs. Five former staff members are now serving in the armed forces.

Exceptionally heavy pressure, as a result of personnel losses and increased volume of work, has been sustained by the subscription and mailing departments. Approximately 831,000 pieces of mail or printed matter have been sent out of the Institute's offices since the beginning of the current fiscal year, including about 375,000 books and pamphlets (not counting The Journal of Accountancy and The Certified Public Accountant) of which 259,165 were sold at prices aggregating nearly $20,000. On the average there have been only two full-time people to handle the work of filling orders and mailing.

There are a few activities not reflected in committee reports which may be of interest to the council.

State Society Relations

Information has been transmitted to presidents of state societies, numerous letters from officers or chairmen of committees of state societies have been answered, in relation to unusual problems which confront them. State society officials have visited the Institute's headquarters, and Institute officers have had opportunities to visit state society presidents in their own communities. In spite of reduction in the number of meetings, and curtailment of travel, good working relationships with state societies have been maintained. Evidence in support of this statement is the following quotation from a recent letter that the secretary has received from the president of the North Carolina Association:

"I do wish to take this occasion to express to you the sincere appreciation of the North Carolina Association for the fine work which you and the Institute have been doing during this period of turmoil. The information you have furnished the members of the Institute has been most valuable to us, and I do not see how we could have gotten along without it. You have been most cooperative with our state society during my administration, for which I am most grateful.

"I want to assure you that we in North Carolina will endeavor to cooperate with you at all times in carrying out any of your programs in the future."

The Institute's staff continues to operate the information clearing house, through which a total of 85 bulletins, reports, statements and other items relating to activities of the profession have been distributed to presidents of state societies during the current fiscal year.

Placement of Accountants in War Agencies

The Institute's staff has maintained a roster of over 600 members and associates of the Institute and other accountants who have expressed their desire to undertake war service of one kind or another. Since September 1, 1942, the names of 379 men have been referred, upon request, to the following war agencies: Army Service Forces, Army Air Corps, Army Ordnance Department, Quartermaster Corps, Navy Bureau of Supplies and Accounts, War Manpower Commission, Petroleum Administration, OPA, Lend-Lease Administration.

Since the first of the year it has become increasingly difficult for persons without prior military training to obtain commissions in the armed forces.

The Institute has been requested with increasing frequency to provide branches of the services with the name, rank, and location of experienced accountants serving in the armed forces. This indicates a
trend toward greater utilization of the professional skills of accountants already in service.

Of the 502 members and associates serving in the armed forces, 285 are in the Army and 217 in the Navy. It is not surprising to find that 409 (over 80 per cent) are shown by our records to be commissioned officers. Sixty-one, when last heard from, were enlisted men (many non-commissioned officers). Information about the rank of the remaining 32 is not available.

**Library**

Since September 1, 1942, the library has answered more than 10,000 inquiries and has received nearly 4,000 visitors. 2,963 books and pamphlets have been lent to members and associates, and 43 technical questions have been answered through the bureau of information.

**Attendance at Meetings**

In addition to numerous trips to Washington, the secretary has attended meetings at Minneapolis, Minnesota; Chicago, Illinois; Philadelphia, Pennsylvania; Providence, Rhode Island; and Baltimore, Maryland.

**Benevolent Fund**

The Benevolent Fund has received this year $5,975 in contributions from members, and has disbursed $1,600 for the benefit of members of advanced years who required financial aid.

**Membership and Finances**

So far the war has not impeded the Institute's growth. Membership is now 6,877 as compared with 6,184 a year ago. Five hundred and thirty applications for admission to the Institute have been received since September 1st, compared with 323 in the comparable period last year. In spite of the waiver of dues of members in the armed forces, which would amount to $7,884, dues received this year exceed those of last year at this date by $5,577. Circulation of *The Journal of Accountancy* has increased to 18,396, compared with 16,330 last year, and even advertising volume shows an excess over the year before of $1,009. A revised budget for the balance of the current fiscal year will be presented to the council, indicating an increase in estimated revenues and a decrease in estimates of some regular expenses, but additional appropriations requested will, if approved, make use of all revenue available.

**Other Activities**

Officers and members of the staff have conferred on a variety of problems with representatives of government agencies and other organizations. Some of these discussions have been of only passing interest, some of them have led to work which has been undertaken by committees of the Institute, and others have given rise to jobs which have been handled by the staff.

For example, representatives of the staff and two committees conferred with the Director of the Accounting Division of the OPA on proposed revisions of financial reporting Forms A and B.

The director of research and the secretary conferred with representatives of the Bureau of Economic Research with respect to studies proposed by the Bureau in which accounting data were necessary.

The vice president, the treasurer, the secretary, and the research assistant conferred with representatives of the Treasury Department with regard to a proposed questionnaire designed to elicit information required for war purposes.

The director of research and the secretary discussed with officials of the Victory Fund Committee in New York, certain problems related to accounting which had arisen in conjunction with the War Loan drives.

The research assistant has made several trips to Washington to work with officers in the Fiscal Division of the War Department on problems of interest to several Institute committees.

A committee chairman and the secretary conferred with officials of the Auditing Section of the Army Air Corps with regard to the possible use of accounting firms in conjunction with the audit of Air Corps contracts.

The secretary, during the course of the year, has had occasion to communicate on a variety of matters with officials of the New York Stock Exchange, American Bankers Association, National Association of Credit Men, National Association of Cost Accountants, American Automobile Manufacturers Association, National Elec-
trical Manufacturers Association, American Arbitration Association, Bureau of Internal Revenue, Securities and Exchange Commission, Reconstruction Finance Corporation, War Manpower Commission, Selective Service Headquarters, and other bodies, with all of which the Institute enjoys the most friendly relations.

Respectfully submitted,

JOHN L. CAREY, Secretary

May 7, 1943

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The Institute's principal job in the past year has been to do what it could to help those in the armed forces, the government, and war industry who have to deal with accounting problems related to prosecution of the war. Institute committees have been able to give helpful information and advice to those who have been faced with such problems in contract renegotiation and termination, in facilitating reports by industry to government war agencies, in the formation of wartime tax policies, and in the management of corporations engaged in war work.

The Institute has taken a leading part in development of policies and procedures designed to permit the most effective use of accounting manpower in the war effort.

As a major item of its war work, the Institute has tried to keep the profession informed of the policies and regulations of the government which affect the accounting procedures of business and the practice of public accounting. Such information has been conveyed through special letters to the membership, letters to state society presidents, The Journal of Accountancy, The Certified Public Accountant, and technical bulletins. In several instances releases, regulations, or manuals dealing with Selective Service requirements and contract-termination procedure have been reprinted in full and sent to each member of the Institute. In total, 478,846 pieces of printed matter were mailed from the Institute's office in the past year, exclusive of The Journal of Accountancy and The Certified Public Accountant.

Relations with Federal Government

As the executive committee's report points out, the problems with which the accounting profession is confronted become more and more centered in the policies formed by Congress and the administration of those policies by government agencies. More and more frequently Institute representatives find it necessary to consult with congressional committees, and to send to members of Congress information on accounting aspects of national problems.

Frequent consultation with the administrative agencies has also been necessary. The Treasury Department sought and received the assistance of the Institute on three occasions: in the preparation of the form known as TFR-500, designed to elicit information about foreign property owned by American citizens; in studying technical problems related to possible recognition of war reserves for tax purposes; and in stimulating adoption of payroll deduction plans for the purchase of war bonds by corporate employees.

The Institute has expressed itself on a number of issues involved in federal taxation. The tax committee has made recommendations for improvement of the internal revenue code and its administration, and is now studying proposals for simplification of the federal tax system, on which it has been invited by representatives of Congress to express an opinion. The Institute was instrumental in working out a plan acceptable to the Treasury whereby extensions of time were granted for the filing of federal income and excess-profits tax returns.

Institute committees have taken an active interest in the accounting policies of government regulatory commissions which exercise control over the financial reports of various types of corporations. Representatives of the Institute have conferred and corresponded recently with the securities and Exchange Commission, the Federal Power Commission, the Federal Communications Commission, the Interstate Commerce Commission, and the National
Association of Railroad and Utility Commissioners.

A conference on federal government accounting, to be held in New York in December under the auspices of the Institute's committee on governmental accounting, is expected to focus attention upon, and perhaps point the way to solution of, internal problems of accounting and auditing with which various agencies of the federal government are concerned.

Other Organizations

Throughout the past year the Institute has continued its cooperative relationships with a number of organizations representing business and financial groups. There has been recent communication with the New York Stock Exchange. Robert Morris Associates, American Management Association, National Association of Credit Men, American Bankers Association, National Association of Investment Companies, American Trade Association Executives, the American Arbitration Association, the National Bankruptcy Conference. The Institute has also kept in touch with other accounting organizations: the American Accounting Association, the National Association of Cost Accountants, Controllers Institute of America, and the Institute of Internal Auditors.

State Societies

As the Institute serves as an instrument through which certified public accountants may deal with problems of national scope, the state societies of certified public accountants are the bodies through which the collective wisdom and energy of members of the profession in the several communities may be focused on state and local problems. It becomes increasingly clear that no clear line of separation can be drawn between national and local problems. What the state societies may do or fail to do has a direct bearing on the welfare of the profession as a whole. What the Institute does or fails to do is of concern to every certified public accountant regardless of where he may live. Close cooperation between the state and national bodies and coordination of their activities are obviously desirable. A good deal of progress has been made in the past seven years but much remains to be done. A special committee appointed under authority of the council of the Institute is now studying the problem.

In the past year the Institute has intensified its efforts to keep state society presidents fully informed of developments in the field of taxation, Selective Service regulations, and other matters. Suggested programs of activity and outlines of committee procedure have been prepared for the convenience of state society officers. The Institute has helped plan programs for state society meetings and has furnished speakers for them. A group of five official representatives of the Institute visited seven cities in the spring, addressing audiences which aggregated more than 1800, on wartime problems in the fields of accounting, auditing, and taxation. Officers of the Institute have attended eleven state society meetings, and the meeting of the Dominion Association of Chartered Accountants, in addition.

Each year closer working relationships between the Institute and state societies have developed, and to that extent the profession moves nearer to the ultimate objective of complete coordination.

Professional Services

The basic services rendered to the profession by four agencies of the Institute have continued undiminished: the board of examiners now provides the standard CPA examination to forty-seven states and territories; the committee on professional ethics continues its efforts to maintain a high standard of professional conduct; the library disseminates an ever increasing volume of technical and professional information; and the Benevolent Fund lightens the burdens of aged members of the profession.

Membership and Finances

The profession's acceptance of the Institute's program and recognition of its accomplishments are indicated in the extraordinarily rapid increase in the membership and in the circulation of The Journal of Accountancy. Eleven hundred applications for membership were received in the fiscal year 1942-1943, and more than 800 new members and associates were elected. The net gain in membership, after losses through death, resignation, and non-payment of dues, was 684, bringing the membership to a total at September 1,
1942-1943 Reports of Officers, Council and Committees

1943, of 7,137. The circulation of The Journal increased in the current year from 16,852 to 19,869. These gains have naturally improved the financial position, with an excess of income over expenditures in the past fiscal year of about $18,000. The contingency fund has grown to $63,251. However, in the coming year increased expenditures are believed to be required in order to sustain the obligations which the organization has assumed.

The Staff

Experience has proved that the accomplishments of voluntary committees can be greatly increased, and direct service by the Institute headquarters to the individual members can be greatly improved, when qualified paid staff assistants are made available to assist the committees directing various branches of the work. It stands to reason that the members who serve without compensation as officers and committee men will have made all the contribution that can reasonably be expected of them if they give the vast amounts of time and energy necessary to solve the technical questions and the questions of policy which confront them, to attend the frequent meetings which are necessary, and to represent the Institute before the public when occasion arises. They cannot be expected to do all these things and, in addition, carry on routine correspondence, prepare meeting agendas, write minutes, follow up details, keep everybody informed who might be interested in their work, undertake research and exploratory trips to dig up facts which have a bearing on their work, draft preliminary reports for committee consideration, and so on. Many committee chairmen have had to do these things, but to the extent that they can be relieved they can devote more time and energy to the important technical, professional, and policy questions that they are attempting to solve. Again, members of a professional organization, who in their voluntary official capacities are dealing with matters of considerable importance to large numbers of people, are entitled to the assistance of specialists—such as specialists in organization procedure, specialists in public relations and in research, editorial workers, librarians, and legal counsel.

As the Institute has been able to employ a larger number of staff assistants, including an increasing variety of specialists, the volume of work accomplished has increased and its continuity has improved. This in turn has led to accelerated increases in membership and enlarged financial resources, which permit additional activity. As the influence of the Institute becomes more extensive both within and without the profession, the importance of its work reaches higher levels and the responsibilities which it has assumed become heavier. In order to measure up to what the profession expects of the Institute, it must overlook no opportunity for service to the profession and to the public. The more successful it is, the more numerous these opportunities will be.

It seems desirable, therefore, to plan for a continuing expansion of the staff, through the addition of various types of specialists, as rapidly as increases in revenues may permit and as need for additional assistants becomes clearly indicated through the development of new opportunities for service.

Some of these opportunities can already be foreseen, and if the council regards it as good policy to plan well ahead of time for gradual expansion, the secretary will submit a tentative plan for consideration of the incoming executive committee. Any increase in staff will probably have to await the conclusion of the war. Such a plan should be related to probable postwar activities of the Institute.

When the United States entered the war, the Institute staff numbered 43 persons, including the director of research and one research assistant, who were on a part-time basis, but not including the examiners employed by the board of examiners to prepare and grade examination papers. Eighteen of the regular staff have since left the Institute's employ, and in addition 14 of those employed to replace them have withdrawn after comparatively short periods of service. Therefore it has been necessary to employ 32 new assistants in a period of less than two years. Some have joined the armed forces, some have entered other war work, some have sought better opportunities, and some have left for other reasons. At one point last year the staff had fallen to a low number of 35. It
Financial Statements

has been difficult to secure competent replacements, but by making extraordinary efforts and waiting until qualified applicants could be found, most of the vacancies have now been filled. The present number of the staff is 42.

The extensive turnover in personnel, however, has placed an additional burden on those who have remained at their jobs, and particularly on those who assume responsibility for the administration of certain departments or certain aspects of the work. Many of the department heads and their assistants have put in a tremendous amount of overtime during the year and have cheerfully done work that used to be done by their subordinates, as well as their own. It seems fitting that the council should know just who these people are who have filled the key jobs in the Institute’s staff and who, in spite of unusual difficulties, have contributed substantially to one of the most successful years in the organization’s history. They are: H. T. Winton, assistant secretary; Frank A. Gale, assistant secretary; Elizabeth Arliss, assistant to the secretary; Susan Ranney, assistant to the treasurer; George N. Farrand, research assistant; Robert M. Mears and Willima Robinson, editorial assistants; George H. Sherwood, business manager; Helen M. Johnstone and Miriam W. Donnelly, librarians; James D. Bennett, purchasing agent and head of the mailing department; Jessie M. Murchie, assistant to the board of examiners; and, in addition, the following assistants: Eunice Merritt, Helen Hendrick, Mary Valois, Mary Stillman, Amy Garvey, Ida Hunt, Katherine Michaelsen, Mary Heitzmann, and James Wood.

Respectfully submitted,

JOHN L. CAREY, Secretary

October 13, 1943

Report of the Auditors

ANNUAL REPORT

To the Members of the
American Institute of Accountants:

Gentlemen: We have examined the accompanying financial statements and schedules of the American Institute of Accountants, its wholly owned subsidiary, American Institute Publishing Co., Inc., and its two affiliated corporations, American Institute of Accountants Foundation and American Institute Benevolent Fund, Inc., for the year ended August 31, 1943; have reviewed the systems of internal control and accounting procedures of the Institute, its subsidiary and affiliates and, without making a detailed audit of the transactions, have examined or tested the accounting records of the Institute, its subsidiary and affiliates, and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying financial statements and schedules present fairly the financial condition of the American Institute of Accountants and its subsidiary and affiliates at August 31, 1943, and the results of their operations for the fiscal year ended that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

GORDON M. HILL
HOWARD A. WITHEY

September 30, 1943
### Consolidated Balance-sheet

**August 31**

<table>
<thead>
<tr>
<th>Assets</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$55,130.25</td>
<td>$48,293.88</td>
</tr>
<tr>
<td>Securities (quoted market value 1943—$248,095.63; 1942—$201,322.89)</td>
<td>247,365.21</td>
<td>243,576.64</td>
</tr>
<tr>
<td>Accounts receivable (including in 1943 advances for employees' portion of pension plan costs, $814.08)</td>
<td>4,595.67</td>
<td>3,687.95</td>
</tr>
<tr>
<td>Inventories (books and unbound sheets, at cost or nominal value; paper stock, supplies, etc., at cost)</td>
<td>7,217.75</td>
<td>10,623.40</td>
</tr>
<tr>
<td>Library books, furniture and equipment</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,493.97</td>
<td>4,048.85</td>
</tr>
<tr>
<td>Goodwill of American Institute Publishing Co., Inc.</td>
<td>14,699.08</td>
<td>14,699.08</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$330,504.93</strong></td>
<td><strong>$324,932.80</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Principal</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$6,244.93</td>
<td>$13,608.23</td>
</tr>
<tr>
<td>Taxes withheld from salaries</td>
<td>2,034.61</td>
<td>118.59</td>
</tr>
<tr>
<td>Accrued expenses and taxes</td>
<td>862.83</td>
<td>806.81</td>
</tr>
<tr>
<td>Payroll deductions for U. S. War Bonds</td>
<td>419.75</td>
<td>478.49</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$9,562.12</strong></td>
<td><strong>$15,012.12</strong></td>
</tr>
<tr>
<td>Deferred income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscriptions and advertising unearned; dues paid in advance; fees of applicants, pending admission to Institute; and unfilled orders</td>
<td><strong>$23,267.44</strong></td>
<td><strong>$17,148.60</strong></td>
</tr>
<tr>
<td><strong>Total principal</strong></td>
<td><strong>$297,675.37</strong></td>
<td><strong>$292,772.08</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and principal</strong></td>
<td><strong>$330,504.93</strong></td>
<td><strong>$324,932.80</strong></td>
</tr>
</tbody>
</table>

Note.—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses of the American Institute of Accountants, for which the invoices were received subsequent to the balance-sheet dates, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand for sale has been charged to expense at time of acquisition.
AMERICAN INSTITUTE OF ACCOUNTANTS AND AMERICAN INSTITUTE PUBLISHING CO., INC.

(Exclusive of American Institute of Accountants Foundation or American Institute Benevolent Fund, Inc., for which separate statements are included herein)

CONSOLIDATED STATEMENT OF PRINCIPAL TRANSACTIONS FOR THE FISCAL YEAR ENDED AUGUST 31, 1943

<table>
<thead>
<tr>
<th>Appropriated for</th>
<th>Total</th>
<th>Unappropriated*</th>
<th>Endowment Fund</th>
<th>Contingency Fund</th>
<th>Building Fund</th>
<th>Elijah Watt Sells Scholarship Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$311,441.37</td>
<td>$17,921.36</td>
<td>$227,568.40</td>
<td>$39,412.26</td>
<td>$6,179.65</td>
<td>$1,690.41</td>
</tr>
<tr>
<td><strong>Balance—September 1, 1942</strong></td>
<td>$292,772.08</td>
<td>$17,921.36</td>
<td>$227,568.40</td>
<td>$39,412.26</td>
<td>$6,179.65</td>
<td>$1,690.41</td>
</tr>
<tr>
<td><strong>Add:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of income over expenses for fiscal year</td>
<td>17,960.03</td>
<td>22,602.39</td>
<td>4,653.51</td>
<td></td>
<td></td>
<td>11.15</td>
</tr>
<tr>
<td>Net income from securities and savings banks</td>
<td>709.26</td>
<td></td>
<td></td>
<td>561.24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td>22,602.39</td>
<td>4,653.51</td>
<td>24,276.55</td>
<td>6,327.67</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$311,441.37</td>
<td>$17,921.36</td>
<td>$227,568.40</td>
<td>$64,250.05</td>
<td></td>
<td>$1,701.56</td>
</tr>
<tr>
<td><strong>Deduct:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special legal expenses</td>
<td>$1,000.00</td>
<td></td>
<td></td>
<td>$1,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on sale of securities</td>
<td>12,766.00</td>
<td></td>
<td>12,766.00</td>
<td></td>
<td></td>
<td>$1,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$13,766.00</td>
<td></td>
<td>$12,766.00</td>
<td></td>
<td></td>
<td>$1,000.00</td>
</tr>
<tr>
<td><strong>Balance—August 31, 1943</strong></td>
<td>$297,675.37</td>
<td>$17,921.36</td>
<td>$214,802.40</td>
<td>$63,250.05</td>
<td></td>
<td>$1,701.56</td>
</tr>
</tbody>
</table>

*Includes surplus (deficit) of American Institute Publishing Co., Inc., shown separately in previous reports.

Note.—*Italics* indicate red.
**AMERICAN INSTITUTE OF ACCOUNTANTS**
**AND AMERICAN INSTITUTE PUBLISHING CO., INC.**

(Exclusive of American Institute of Accountants Foundation or American Institute Benevolent Fund, Inc., for which separate statements are included herein, and of other transactions charged or credited direct to principal of funds as shown in Exhibit "B")

**CONSOLIDATED STATEMENT OF INCOME AND EXPENSES**

<table>
<thead>
<tr>
<th></th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dues</td>
<td>$144,473.53</td>
<td>$135,715.58</td>
</tr>
<tr>
<td>Earned subscriptions to monthly publications—nonmembers only</td>
<td>42,791.42</td>
<td>37,639.08</td>
</tr>
<tr>
<td>Sales of books</td>
<td>9,540.23</td>
<td>10,998.27</td>
</tr>
<tr>
<td>Advertising</td>
<td>18,159.56</td>
<td>15,479.76</td>
</tr>
<tr>
<td>Fees from state boards</td>
<td>11,200.20</td>
<td>11,815.10</td>
</tr>
<tr>
<td>Income from securities and bank balances</td>
<td>9,992.96</td>
<td>9,692.81</td>
</tr>
<tr>
<td>Application fees</td>
<td>1,440.00</td>
<td>1,340.00</td>
</tr>
<tr>
<td>Contributions to library from American Institute of Accountants Foundation</td>
<td>2,789.63</td>
<td>2,881.36</td>
</tr>
<tr>
<td>Total income</td>
<td>$250,627.55</td>
<td>$238,437.66</td>
</tr>
</tbody>
</table>

| Expenses:                 |            |            |
| Salaries                  | $93,348.86 | $93,137.22 |
| Expenses of research department | 314.91   | 340.79     |
| Prime costs of monthly publications (paper, printing, etc.) | 32,872.34 | 29,412.46  |
| Rent, electricity, and building supplies | 18,208.56 | 17,623.37  |
| Board of examiners expenses | 15,068.13 | 15,536.57  |
| Prime cost of books (paper, printing, purchases, royalties, etc.) | 5,344.36  | 6,682.80   |
| Postage and express       | 9,404.63   | 8,413.16   |
| Honoraria                 | 7,500.00   | 7,500.00   |
| Stationery, printing, and supplies | 4,851.69  | 5,685.61   |
| Yearbook                  | 6,160.56   | 5,288.16   |
| Traveling                 | 3,928.64   | 6,745.99   |
| Legal fees                | 6,282.34   | 6,407.48   |
| Special report to members | 5,531.14   | 3,278.93   |
| Telephone and telegraph   | 3,567.23   | 3,323.41   |
| Employer's contribution to cost of employees' pension plan | 3,174.71  |            |
| Social security taxes     | 2,907.40   | 3,039.94   |
| Advertising and promotion of publications | 2,086.49  | 2,493.76   |
| Annual meeting            | 2,484.47   | 2,651.04   |
| Books and magazines purchased | 2,693.68  | 2,721.91   |
| Purchase of equipment     | 99.74      | 1,404.41   |
| Other items               | 6,827.64   | 6,805.84   |
| Total expenses            | $232,667.52| $228,492.85|

| Excess of income over expenses | $17,960.03 | $9,944.81 |

**Note.**—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses of the American Institute of Accountants, for which invoices were received subsequent to closing, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand for sale at the end of a year has been charged to expense at time of acquisition.
### Financial Statements

**AMERICAN INSTITUTE OF ACCOUNTANTS**

**Balance Sheet**

<table>
<thead>
<tr>
<th>August 31</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GENERAL FUND</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES AND PRINCIPAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$4,043.58</td>
<td>$7,664.34</td>
</tr>
<tr>
<td>Taxes withheld from salaries</td>
<td>1,360.54</td>
<td>59.36</td>
</tr>
<tr>
<td>Accrued expenses and taxes</td>
<td>300.81</td>
<td>311.14</td>
</tr>
<tr>
<td>Payroll deductions for purchase of U. S. War Bonds</td>
<td>419.75</td>
<td>478.49</td>
</tr>
<tr>
<td>Due to Elijah Watt Sells scholarship fund</td>
<td>169.99</td>
<td>158.84</td>
</tr>
<tr>
<td><strong>Deferred income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dues paid in advance</td>
<td>$480.00</td>
<td>$215.00</td>
</tr>
<tr>
<td>Fees of applicants, pending admission to Institute</td>
<td>1,360.00</td>
<td>635.00</td>
</tr>
<tr>
<td>Unfilled orders</td>
<td>203.40</td>
<td></td>
</tr>
<tr>
<td><strong>Principal (Exhibit “E”)</strong>:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriated for contingency fund</td>
<td>$63,250.05</td>
<td>$39,412.26</td>
</tr>
<tr>
<td>Appropriated for building fund</td>
<td>6,179.65</td>
<td></td>
</tr>
<tr>
<td>Unappropriated</td>
<td>19,084.50</td>
<td>18,846.93</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$82,334.55</td>
<td>$64,438.84</td>
</tr>
</tbody>
</table>

| | | |
| **Cash:** | | |
| Appropriated for contingency fund | $35,427.23 | |
| Unappropriated | 11,520.87 | $46,948.10 | $44,027.13 |
| **Securities (Schedule #1):** | | |
| Appropriated for contingency fund | $27,822.82 | |
| Unappropriated | 6,744.90 | |
| (quoted market value 1943—$35,941.25; quoted market value 1942—$18,307.50) | 34,567.72 | 18,567.72 |
| **Accounts receivable for examination services and other items (including in 1943 advances for employees' portion of pension plan costs, $493.44):** | | |
| | 2,660.83 | 2,528.86 |
| **Stocks of Subsidiary Corporations:** | | |
| American Institute Publishing Co., Inc. | 5,000.00 | 5,000.00 |
| 135 Cedar Street Corporation (carried at nominal value pending dissolution of corporation) | 1.00 | 1.00 |
| Furniture and equipment | 1.00 | 1.00 |
| Prepaid expenses | 1,493.97 | 3,835.30 |
| **Total** | $90,672.62 | $73,961.01 |
ENDOWMENT FUND

Cash ................................................. $ 3,624.57 $ 4,176.78
Securities (quoted market value 1943—$210,545.63; 1942—$181,727.27)—(Schedule #1). 211,265.92 223,477.35
Library books, furniture, and equipment .......... 1.00 1.00
Total .......................................................... $214,891.49 $227,655.13

Taxes withheld from salaries .................. $ 15.10 $ 14.70
Accrued taxes .................................. 73.99 72.03
Principal (Exhibit “E”). ...................... 214,802.40 227,568.40
Total .......................................................... $214,891.49 $227,655.13

ELIJAH WATT SELLS SCHOLARSHIP FUND

Securities (quoted market value 1943—$1,608.75; 1942—$128.12)—(Schedule #1) $ 1,531.57 $ 1,531.57
Due from general fund .......................... 169.99 158.84
Total .......................................................... $1,701.56 $1,690.41
Unexpended income (Exhibit “E”) .............. 589.06 577.91
Total .......................................................... $1,701.56 $1,690.41

Total assets ............................................... $307,265.67 $303,306.55
Total liabilities and principal ...... $307,265.67 $303,306.55

Note.—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses for which invoices were received subsequent to the balance-sheet dates, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand for sale has been charged to expense at time of acquisition.
## Financial Statements

### AMERICAN INSTITUTE OF ACCOUNTANTS

**Statement of Principal Transactions for the Fiscal Year Ended August 31, 1943**

<table>
<thead>
<tr>
<th>GENERAL FUND</th>
<th>Contingency Fund</th>
<th>Building Fund</th>
<th>Unappropriated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance—September 1, 1942</td>
<td>$39,412.26</td>
<td>$6,179.65</td>
<td>$18,846.93</td>
<td>$64,438.84</td>
</tr>
</tbody>
</table>

Add:

- Excess of income over expenses (Exhibit “F”) | $22,839.96
- Net income from securities and savings banks | 709.26

| Deductions | |
|-------------|------------------|---------------|----------------|-------|
| Special legal expenses | $1,000.00 | |
| Contribution to endowment fund to meet loss | $4,653.51 | |

<table>
<thead>
<tr>
<th>Transfer</th>
<th>$24,276.55</th>
<th>$6,327.67</th>
<th>$17,948.88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance—August 31, 1943</td>
<td>$63,250.05</td>
<td>$19,084.50</td>
<td>$82,334.55</td>
</tr>
</tbody>
</table>

**Note.** Italics indicate red.

### AMERICAN INSTITUTE OF ACCOUNTANTS

**Statement of Principal Transactions for the Fiscal Year Ended August 31, 1943**

#### ENDOWMENT FUND

<table>
<thead>
<tr>
<th>Balance September 1, 1942</th>
<th>Current Year Transactions</th>
<th>Balance August 31, 1943</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions, including proceeds from sale of books for which copyrights were donated to the Institute</td>
<td>$191,264.09</td>
<td>$191,264.09</td>
</tr>
<tr>
<td>Initiation fees of its members contributed by the Institute</td>
<td>24,175.00</td>
<td>24,175.00</td>
</tr>
<tr>
<td>Net profit or loss on sales of securities</td>
<td>19,296.04</td>
<td>$12,766.00</td>
</tr>
<tr>
<td>Net cost of publication of “Accountants' Index” and first supplement</td>
<td>9,922.62</td>
<td></td>
</tr>
<tr>
<td>Balance in principal accounts (per books)</td>
<td>$224,812.51</td>
<td>$12,766.00</td>
</tr>
<tr>
<td>Excess in fund, composed of excess of income over expenses; contributions from general fund; and special contributions for current expenses</td>
<td>2,755.89</td>
<td>2,755.89</td>
</tr>
<tr>
<td>Totals</td>
<td>$227,568.40</td>
<td>$12,766.00</td>
</tr>
</tbody>
</table>

**ELIJAH WATT SELLS SCHOLARSHIP FUND—RESTRICTED**

| Balance—September 1, 1942, and August 31, 1943 | $1,112.50 |

**ELIJAH WATT SELLS SCHOLARSHIP FUND—UNEXPENDED INCOME**

| Balance—September 1, 1942 | $577.91 |
| Excess of income over expenses (Exhibit “F”) | 11.15 |
| Balance—August 31, 1943 | $589.06 |

**Note.** Italics indicate red.
### Statement of Income and Expenses

**GENERAL FUND OPERATIONS**—**(GENERAL ACTIVITIES)**

#### Income:

<table>
<thead>
<tr>
<th>Description</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dues (of which $16,877.92 for 1943 and $18,113.41 for 1942 prorated to <strong>The Journal of Accountancy</strong> and <strong>The Certified Public Accountant</strong>—see below)</td>
<td>$141,473.53</td>
<td>$135,715.58</td>
</tr>
<tr>
<td>Fees from state boards.</td>
<td>11,200.20</td>
<td>11,815.10</td>
</tr>
<tr>
<td>Profit on publications sold.</td>
<td>9,030.50</td>
<td>7,748.76</td>
</tr>
<tr>
<td>Application fees.</td>
<td>1,440.00</td>
<td>1,340.00</td>
</tr>
<tr>
<td>Income from securities and interest on bank balances.</td>
<td>286.07</td>
<td>272.00</td>
</tr>
<tr>
<td>Sundry income.</td>
<td>192.75</td>
<td>1,171.01</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>$163,623.05</strong></td>
<td><strong>$158,062.45</strong></td>
</tr>
</tbody>
</table>

#### Expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$54,923.90</td>
<td>$57,001.95</td>
</tr>
<tr>
<td>Expenses of research department.</td>
<td>314.91</td>
<td>340.79</td>
</tr>
<tr>
<td>Portion of dues covering subscriptions of members and associates to <strong>The Journal of Accountancy</strong> and <strong>The Certified Public Accountant</strong></td>
<td>16,877.92</td>
<td>18,113.41</td>
</tr>
<tr>
<td>Board of examiners expenses</td>
<td>15,068.13</td>
<td>15,536.57</td>
</tr>
<tr>
<td>Rent, electricity, and building supplies</td>
<td>8,233.51</td>
<td>8,123.37</td>
</tr>
<tr>
<td>Yearbook</td>
<td>6,160.56</td>
<td>5,288.16</td>
</tr>
<tr>
<td>Traveling</td>
<td>3,928.64</td>
<td>6,745.99</td>
</tr>
<tr>
<td>Honoraria</td>
<td>4,100.00</td>
<td>4,100.00</td>
</tr>
<tr>
<td>Stationery, printing, and supplies</td>
<td>3,751.52</td>
<td>4,111.83</td>
</tr>
<tr>
<td>Postage and expressage</td>
<td>3,581.08</td>
<td>3,323.81</td>
</tr>
<tr>
<td>Special reports to members</td>
<td>5,531.14</td>
<td>3,278.93</td>
</tr>
<tr>
<td>Annual meeting</td>
<td>2,484.47</td>
<td>2,651.04</td>
</tr>
<tr>
<td>Legal fees</td>
<td>4,282.34</td>
<td>4,407.48</td>
</tr>
<tr>
<td>Telephone and telegraph</td>
<td>2,439.49</td>
<td>2,182.23</td>
</tr>
<tr>
<td>Purchases of equipment</td>
<td>739.35</td>
<td></td>
</tr>
<tr>
<td>Employer's contribution to cost of employees' pension plan</td>
<td>2,004.94</td>
<td></td>
</tr>
<tr>
<td>Social security taxes</td>
<td>1,583.18</td>
<td>1,726.79</td>
</tr>
<tr>
<td>Other items</td>
<td>5,517.36</td>
<td>5,154.74</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$140,783.09</strong></td>
<td><strong>$142,826.44</strong></td>
</tr>
</tbody>
</table>

#### Excess of income over expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Excess of income over expenses</strong></td>
<td><strong>$22,839.96</strong></td>
<td><strong>$15,236.01</strong></td>
</tr>
</tbody>
</table>
Financial Statements

AMERICAN INSTITUTE OF ACCOUNTANTS

Statement of Income and Expenses
(continued)

<table>
<thead>
<tr>
<th>Year ended August 31</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENDOWMENT FUND OPERATIONS—LIBRARY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from securities and bank balances</td>
<td>$9,642.08</td>
<td>$9,356.01</td>
</tr>
<tr>
<td>Contributions from American Institute of Accountants Foundation (Exhibit &quot;K&quot;)</td>
<td>2,789.63</td>
<td>2,881.36</td>
</tr>
<tr>
<td>Sales of Accountants' Index Supplement</td>
<td>149.63</td>
<td>237.27</td>
</tr>
<tr>
<td>Other items</td>
<td>.10</td>
<td>14.03</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>$12,581.44</td>
<td>$12,488.67</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$9,060.00</td>
<td>$8,820.00</td>
</tr>
<tr>
<td>Rent</td>
<td>4,200.04</td>
<td>4,000.00</td>
</tr>
<tr>
<td>Books and magazines purchased</td>
<td>2,693.68</td>
<td>2,721.91</td>
</tr>
<tr>
<td>Furniture and fixtures purchased</td>
<td>99.74</td>
<td>343.44</td>
</tr>
<tr>
<td>Social security taxes</td>
<td>333.60</td>
<td>327.21</td>
</tr>
<tr>
<td>Custodian fees</td>
<td>384.04</td>
<td>372.96</td>
</tr>
<tr>
<td>Telephone, stationery, postage, insurance, and other items</td>
<td>463.55</td>
<td>463.71</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$17,234.95</td>
<td>$17,049.23</td>
</tr>
<tr>
<td>Excess of income over expenses (loss met by transfer from general fund—Exhibit &quot;E&quot;)</td>
<td>$4,653.51</td>
<td>$4,560.56</td>
</tr>
</tbody>
</table>

**ELIJAH WATT SELLS SCHOLARSHIP FUND—UNEXPENDED INCOME**

| Income from securities | $64.81 | $64.80 |
| Less cost of medals for awards | 53.66  | 50.32 |
| **Excess of income over expenses** | $11.15  | $14.48 |
| **Excess of income over expenses of all funds of American Institute of Accountants** | $18,197.60 | $10,689.93 |

**NOTE.**—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses for which invoices were received subsequent to the balance-sheet dates, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand at the end of a year for sale has been charged to expense at time of acquisition.

**NOTE.**—*Italics* indicate red.
AMERICAN INSTITUTE PUBLISHING CO., INC.

Balance-sheet

<table>
<thead>
<tr>
<th>Year ended August 31</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$4,557.58</td>
<td>$89.97</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,934.84</td>
<td>1,159.09</td>
</tr>
<tr>
<td>(including advances for employees' portion of pension plan costs, $320.64)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Books and unbound sheets, at cost or nominal value</td>
<td>$3,069.86</td>
<td>5,392.57</td>
</tr>
<tr>
<td>Paper stock, supplies, etc., at cost</td>
<td>4,147.89</td>
<td>5,230.83</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Prepaid royalties</td>
<td></td>
<td>213.55</td>
</tr>
<tr>
<td>Goodwill</td>
<td>14,699.08</td>
<td>14,699.08</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$28,410.25</td>
<td>$26,786.09</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND CAPITAL** |            |            |
| Accounts payable        | $2,201.35  | $5,943.89  |
| Taxes withheld from salaries | 658.97    | 44.53    |
| Accrued expenses and taxes | 488.03    | 423.64    |
| **Total liabilities**   | $3,348.35  | $6,412.06  |

Deferred income:
Subscriptions and advertising unearned | $21,224.04 | $16,298.60 |

Capital:
Capital stock—1,000 shares, no par value | $5,000.00 | $5,000.00 |
Paid-in surplus | 1,375.00 | 1,375.00 |
**Deficit, August 31, 1942** | $2,299.57 | 2,299.57 |
Net loss for the fiscal year (Exhibit "H") | 237.57 |
**Deficit, August 31, 1943** | 2,537.14 |
**Total capital** | $3,837.86 | $4,075.43 |

**Total liabilities and capital** | $28,410.25 | $26,786.09 |

**NOTE.** Italics indicate red.
### AMERICAN INSTITUTE PUBLISHING CO., INC.

#### Statement of Income and Expenses

<table>
<thead>
<tr>
<th>Year ended August 31</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>The Journal of Accountancy and The Certified Public Accountant:</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscriptions earned:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members and associates of American Institute of Accountants (paid by Institute)</td>
<td>$16,877.92</td>
<td>$18,113.41</td>
</tr>
<tr>
<td>Other subscribers.</td>
<td>42,791.42</td>
<td>37,639.08</td>
</tr>
<tr>
<td>Advertising</td>
<td>18,159.56</td>
<td>15,479.76</td>
</tr>
<tr>
<td>Sales of magazines</td>
<td>2,287.99</td>
<td>1,968.15</td>
</tr>
<tr>
<td>Sales of bound volumes, binding, and other items (less cost of binding)</td>
<td>1,402.23</td>
<td>1,537.05</td>
</tr>
<tr>
<td><strong>Prime costs—paper, printing, and other costs</strong></td>
<td>$81,519.12</td>
<td>$74,737.45</td>
</tr>
<tr>
<td>Income, less prime costs</td>
<td>$48,646.78</td>
<td>$45,324.99</td>
</tr>
<tr>
<td><strong>Books:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$9,540.23</td>
<td>$10,998.27</td>
</tr>
<tr>
<td>Prime costs—paper, printing, purchases, royalties and other costs</td>
<td>5,344.36</td>
<td>6,682.80</td>
</tr>
<tr>
<td>Excess of book sales over prime costs</td>
<td>$4,195.87</td>
<td>$4,315.47</td>
</tr>
<tr>
<td><strong>Journal of Accountancy Index—net proceeds</strong></td>
<td>$176.82</td>
<td>$199.43</td>
</tr>
<tr>
<td>Income from magazines and books</td>
<td>$53,019.47</td>
<td>$49,839.89</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$29,364.96</td>
<td>$27,315.27</td>
</tr>
<tr>
<td>Rent</td>
<td>5,775.01</td>
<td>5,500.00</td>
</tr>
<tr>
<td>Postage and express</td>
<td>5,710.66</td>
<td>4,987.05</td>
</tr>
<tr>
<td>Honoraria</td>
<td>3,400.00</td>
<td>3,400.00</td>
</tr>
<tr>
<td>Advertising and promotion</td>
<td>2,086.49</td>
<td>2,493.76</td>
</tr>
<tr>
<td>Legal fees</td>
<td>2,000.00</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Employer's contributions to cost of employees' pension plan</td>
<td>1,169.77</td>
<td></td>
</tr>
<tr>
<td>Social security taxes</td>
<td>990.62</td>
<td>985.94</td>
</tr>
<tr>
<td>Stationery, printing, and supplies</td>
<td>1,034.26</td>
<td>1,434.09</td>
</tr>
<tr>
<td>Telephone and telegraph</td>
<td>974.01</td>
<td>987.95</td>
</tr>
<tr>
<td>Equipment purchased</td>
<td>321.62</td>
<td></td>
</tr>
<tr>
<td>Insurance, taxes, discounts, and other items</td>
<td>751.26</td>
<td>1,159.33</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$53,257.04</td>
<td>$50,585.01</td>
</tr>
<tr>
<td><strong>Net loss for the fiscal year</strong></td>
<td>$237.57</td>
<td>$745.12</td>
</tr>
</tbody>
</table>

**Note.—** *Italics* indicate red.
AMERICAN INSTITUTE OF ACCOUNTS FOUNDATION

STATEMENT OF ASSETS

August 31

<table>
<thead>
<tr>
<th></th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>$540.86</td>
<td>$1,101.30</td>
</tr>
<tr>
<td><strong>Securities</strong> (quoted market value 1943—$60,068.25; 1942—$53,925.25) (Schedule #2)</td>
<td>63,473.05</td>
<td>62,898.05</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$64,013.91</td>
<td>$63,999.35</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Principal (Exhibit “J”)</strong></td>
<td>$64,013.91</td>
<td>$63,999.35</td>
</tr>
</tbody>
</table>

Exhibit “J”

STATEMENT OF PRINCIPAL TRANSACTIONS FOR THE FISCAL YEAR ENDED AUGUST 31, 1943

<table>
<thead>
<tr>
<th></th>
<th>Balance September 1, Year's 1942 Transactions</th>
<th>Current Balance August 31, 1943</th>
<th>Balance August 31, 1943</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiation fees of its members contributed by the American Institute of Accountants.</td>
<td>$49,775.00</td>
<td>$49,775.00</td>
<td></td>
</tr>
<tr>
<td>Contributions from others.</td>
<td>11,515.00</td>
<td>11,515.00</td>
<td></td>
</tr>
<tr>
<td>Profit on publication of “A Statement of Accounting Principles”</td>
<td>5,774.17</td>
<td>$254.56</td>
<td></td>
</tr>
<tr>
<td>Excess of income over contributions (to American Institute of Accountants Endowment Fund) and expenses (see Exhibit “K”)</td>
<td>3,918.65</td>
<td>3,918.65</td>
<td></td>
</tr>
<tr>
<td>Net loss on sales of securities</td>
<td>6,983.47</td>
<td>240.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$63,999.35</td>
<td>$14.56</td>
<td>$64,013.91</td>
</tr>
</tbody>
</table>

Note.—*Italics* indicate red.

Exhibit “K”

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

STATEMENT OF INCOME, EXPENSES, AND CONTRIBUTIONS

GENERAL ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from securities</td>
<td>$2,978.89</td>
<td>$3,072.50</td>
</tr>
<tr>
<td>Less fee of security custodian</td>
<td>189.26</td>
<td>191.14</td>
</tr>
<tr>
<td>Excess of income over expenses</td>
<td>$2,789.63</td>
<td>$2,881.36</td>
</tr>
<tr>
<td>Contribution to American Institute of Accountants Endowment Fund (Exhibit “F”)</td>
<td>2,789.63</td>
<td>2,881.36</td>
</tr>
</tbody>
</table>
## Financial Statements

### AMERICAN INSTITUTE BENEVOLENT FUND, INC.

#### Statement of Assets

<table>
<thead>
<tr>
<th></th>
<th>August 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1943</td>
<td>1942</td>
</tr>
<tr>
<td>Cash</td>
<td>$4,119.19</td>
<td>$5,450.41</td>
</tr>
<tr>
<td>Securities (quoted market value 1943—$8,162.19; 1942—$3,048.75)</td>
<td>7,970.00</td>
<td>2,970.00</td>
</tr>
<tr>
<td>Total assets</td>
<td>$12,089.19</td>
<td>$8,420.41</td>
</tr>
</tbody>
</table>

#### Statement of Principal Transactions for Fiscal Year Ended August 31, 1943

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, September 1, 1942</td>
<td>$8,420.41</td>
</tr>
<tr>
<td>Add: Excess of income over expenses and distributions (Exhibit “N”)</td>
<td>3,668.78</td>
</tr>
<tr>
<td>Balance, August 31, 1943</td>
<td>$12,089.19</td>
</tr>
</tbody>
</table>

#### Statement on Income, Expenses, and Distributions

<table>
<thead>
<tr>
<th></th>
<th>Year ended August 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1943</td>
</tr>
<tr>
<td>Income:</td>
<td></td>
</tr>
<tr>
<td>Contributions (including donations for specific purposes)</td>
<td>$5,985.65</td>
</tr>
<tr>
<td>Income from securities</td>
<td>108.20</td>
</tr>
<tr>
<td>Interest on savings accounts</td>
<td>49.56</td>
</tr>
<tr>
<td>Recovery on payment previously made</td>
<td>$100.00</td>
</tr>
<tr>
<td>Total</td>
<td>$6,143.41</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses and distributions:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments made for assistance</td>
<td>$2,400.00</td>
</tr>
<tr>
<td>Stationery, printing, and other expenses</td>
<td>74.63</td>
</tr>
<tr>
<td>Total</td>
<td>$2,474.63</td>
</tr>
</tbody>
</table>

<p>| Excess of income over expenses and distributions | $3,668.78 | $1,966.09 |</p>
<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>Rate</th>
<th>Maturity</th>
<th>Cost</th>
<th>Quoted Market Value August 31, 1943</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GENERAL FUND</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>140 shs. Pacific Gas &amp; Electric Co. 6% first preferred</td>
<td></td>
<td></td>
<td>$4,764.90</td>
<td>$5,005.00</td>
</tr>
<tr>
<td>$2,000.00 New York, N. Y., City of, serial</td>
<td>3</td>
<td>1967</td>
<td>1,980.00</td>
<td>2,105.00</td>
</tr>
<tr>
<td>5,000.00 New York, N. Y., City of, corporate stock (held in contingency fund)</td>
<td>3</td>
<td>1977</td>
<td>5,018.75</td>
<td>5,337.50</td>
</tr>
<tr>
<td>5,000.00 New York, N. Y., City of, serial (held in contingency fund)</td>
<td>3</td>
<td>1957</td>
<td>4,866.57</td>
<td>5,343.75</td>
</tr>
<tr>
<td>2,000.00 New York, N. Y., City of, corporate stock (held in contingency fund)</td>
<td>3</td>
<td>1979</td>
<td>1,937.50</td>
<td>2,135.00</td>
</tr>
<tr>
<td>16,000.00 United States Treasury Bond (held in contingency fund)</td>
<td>2½</td>
<td>1969/64</td>
<td>16,000.00</td>
<td>16,015.00</td>
</tr>
<tr>
<td>Totals—general fund</td>
<td></td>
<td></td>
<td>$34,567.72</td>
<td>$35,941.25</td>
</tr>
<tr>
<td><strong>ENDOWMENT FUND</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,000.00 Argentine Republic external conversion loan</td>
<td>4</td>
<td>1972</td>
<td>9,100.00</td>
<td>8,450.00</td>
</tr>
<tr>
<td>5,000.00 Atlantic Coast Line Railroad Co., series “A”</td>
<td>4½</td>
<td>1964</td>
<td>3,912.50</td>
<td>3,343.75</td>
</tr>
<tr>
<td>5,000.00 Canadian Pacific Railway Co.</td>
<td>4</td>
<td>perpetual</td>
<td>4,862.50</td>
<td>4,300.00</td>
</tr>
<tr>
<td>1,250.00 Erie Railroad Co. first consolidated mortgage, series “B”</td>
<td>4</td>
<td>1995</td>
<td>1,118.75</td>
<td>1,250.00</td>
</tr>
<tr>
<td>1,000.00 Gatineau Power Co. series “A” first mortgage</td>
<td>3¾</td>
<td>1969</td>
<td>982.50</td>
<td>980.00</td>
</tr>
<tr>
<td>10,000.00 Great Northern Railway Co. gold bonds, series “E” general mortgage</td>
<td>4½</td>
<td>1977</td>
<td>9,257.50</td>
<td>9,887.50</td>
</tr>
<tr>
<td>5,000.00 Louisville &amp; Nashville Railroad Co. gold bonds, series “D” first and refunding mortgage</td>
<td>4</td>
<td>2003</td>
<td>5,012.50</td>
<td>4,850.00</td>
</tr>
<tr>
<td>5,000.00 Macon Terminal Co. guaranteed first mortgage gold bonds</td>
<td>5</td>
<td>1965</td>
<td>5,400.00</td>
<td>5,062.50</td>
</tr>
<tr>
<td>5,000.00 Michigan Consolidated Gas Co. first mortgage</td>
<td>4</td>
<td>1963</td>
<td>4,875.00</td>
<td>5,243.75</td>
</tr>
<tr>
<td>5,000.00 New York Central Railroad Co. refunding and improvement mortgage “A”</td>
<td>4½</td>
<td>2013</td>
<td>2,912.50</td>
<td>2,706.25</td>
</tr>
<tr>
<td>5,000.00 New York Central &amp; Hudson River Railroad Co. Lake Shore collateral</td>
<td>3¾</td>
<td>1998</td>
<td>4,257.50</td>
<td>3,150.00</td>
</tr>
<tr>
<td>4,000.00 New York, N. Y., City of, serial</td>
<td>3</td>
<td>1967</td>
<td>3,960.00</td>
<td>4,210.00</td>
</tr>
<tr>
<td>5,000.00 New York, N. Y., City of, corporate stock</td>
<td>3</td>
<td>1977</td>
<td>5,018.75</td>
<td>5,337.50</td>
</tr>
<tr>
<td>30,000.00 New York, N. Y., City of, corporate stock</td>
<td>3</td>
<td>1979</td>
<td>30,287.50</td>
<td>32,025.00</td>
</tr>
<tr>
<td>5,000.00 New York State Electric &amp; Gas Corp. first mortgage</td>
<td>3¾</td>
<td>1964</td>
<td>5,100.00</td>
<td>5,531.25</td>
</tr>
<tr>
<td>5,000.00 Pennsylvania Railroad Co. general mortgage, series “E”</td>
<td>4½</td>
<td>1984</td>
<td>4,998.75</td>
<td>5,262.50</td>
</tr>
<tr>
<td>5,000.00 Pere Marquette Railway Co. first mortgage gold bonds, series “C”</td>
<td>4½</td>
<td>1980</td>
<td>3,187.50</td>
<td>3,500.00</td>
</tr>
<tr>
<td>5,000.00 Reading Co. series “A” general and refunding mortgage gold bonds</td>
<td>4½</td>
<td>1997</td>
<td>5,262.50</td>
<td>4,700.00</td>
</tr>
<tr>
<td>5,000.00 St. Louis-San Francisco Railway Co. series “B” prior lien mortgage—stamped (interest in default)</td>
<td>5</td>
<td>1950</td>
<td>4,377.50</td>
<td>1,718.75</td>
</tr>
<tr>
<td>3,000.00 Southern Pacific Co. gold bonds</td>
<td>4½</td>
<td>1981</td>
<td>2,801.25</td>
<td>1,972.50</td>
</tr>
<tr>
<td>Carried forward</td>
<td></td>
<td></td>
<td>$116,685.00</td>
<td>$113,481.25</td>
</tr>
<tr>
<td>DESCRIPTION</td>
<td>Rate</td>
<td>Maturity</td>
<td>Cost</td>
<td>August 31, 1943</td>
</tr>
<tr>
<td>-------------</td>
<td>------</td>
<td>----------</td>
<td>----------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Brought forward</td>
<td>$116,685.00</td>
<td>$113,481.25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$17,000.00 United States of America Savings Bonds, series “G”</td>
<td>2 1/2</td>
<td>1953</td>
<td>17,000.00</td>
<td>16,473.00*</td>
</tr>
<tr>
<td>9,000.00 United States of America Savings Bonds, series “G”</td>
<td>2 1/2</td>
<td>1955</td>
<td>9,000.00</td>
<td>8,892.00*</td>
</tr>
<tr>
<td>50 shs. Allied Chemical &amp; Dye Corporation, common</td>
<td></td>
<td></td>
<td>7,412.25</td>
<td>7,450.00</td>
</tr>
<tr>
<td>25 “ American Telephone and Telegraph Co., capital stock</td>
<td></td>
<td></td>
<td>3,582.13</td>
<td>3,915.63</td>
</tr>
<tr>
<td>100 “ Bethlehem Steel Corporation 7% cumulative preferred</td>
<td></td>
<td></td>
<td>12,325.00</td>
<td>11,600.00</td>
</tr>
<tr>
<td>200 “ Commonwealth &amp; Southern Corporation $6 preferred</td>
<td></td>
<td></td>
<td>11,036.00</td>
<td>13,550.00</td>
</tr>
<tr>
<td>75 “ Consumers Power Co. $4.50 preferred</td>
<td></td>
<td></td>
<td>7,759.13</td>
<td>7,687.50</td>
</tr>
<tr>
<td>17 1/2 “ Erie Railroad Co. 5% preferred, series “A”</td>
<td></td>
<td></td>
<td>748.13</td>
<td>822.50</td>
</tr>
<tr>
<td>200 “ General Electric Co., common</td>
<td></td>
<td></td>
<td>7,155.29</td>
<td>7,400.00</td>
</tr>
<tr>
<td>100 “ General Motors Corporation, common</td>
<td></td>
<td></td>
<td>4,912.22</td>
<td>5,187.50</td>
</tr>
<tr>
<td>50 “ P. Lorillard Co. preferred</td>
<td></td>
<td></td>
<td>7,839.55</td>
<td>7,812.50</td>
</tr>
<tr>
<td>15 “ Pacific Gas &amp; Electric Company 6% first preferred</td>
<td></td>
<td></td>
<td>510.53</td>
<td>536.25</td>
</tr>
<tr>
<td>100 “ Standard Oil Co. of New Jersey</td>
<td></td>
<td></td>
<td>5,300.69</td>
<td>5,737.50</td>
</tr>
<tr>
<td>Totals—endowment fund</td>
<td>$211,265.92</td>
<td>$210,545.63</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ELIJAH WATT SELLS SCHOLARSHIP FUND

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>Rate</th>
<th>Maturity</th>
<th>Cost</th>
<th>August 31, 1943</th>
</tr>
</thead>
<tbody>
<tr>
<td>45 “ Pacific Gas &amp; Electric Company 6% first preferred</td>
<td></td>
<td></td>
<td>$1,531.57</td>
<td>$1,608.75</td>
</tr>
<tr>
<td>Totals—general, endowment, and Elijah Watt Sells Scholarship funds</td>
<td></td>
<td></td>
<td>$247,365.21</td>
<td>$248,095.63</td>
</tr>
</tbody>
</table>

* Current redemption value.
# Schedule of Marketable Securities

**AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION**

**Schedule No. 2**

**Schedule of Marketable Securities**

**August 31, 1943**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Maturity</th>
<th>Cost</th>
<th>Market Value August 31, 1943</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 5,000.00 Baltimore &amp; Ohio Railroad Co. secured notes</td>
<td>4</td>
<td>1944</td>
<td>$4,701.25</td>
<td>$4,381.25</td>
</tr>
<tr>
<td>5,000.00 Canadian Pacific Railway Co. debenture stock consolidated</td>
<td>4</td>
<td>perpetual</td>
<td>4,425.00</td>
<td>4,300.00</td>
</tr>
<tr>
<td>4,000.00 Gatineau Power Co. series “A” first mortgage</td>
<td>3 ¾</td>
<td>1969</td>
<td>3,930.00</td>
<td>3,920.00</td>
</tr>
<tr>
<td>5,000.00 Illinois Central Railroad Co. and Chicago, St. Louis &amp; New Orleans Railroad Co. series “A” joint first refunding mortgage</td>
<td>5</td>
<td>1963</td>
<td>4,525.00</td>
<td>2,700.00</td>
</tr>
<tr>
<td>1,000.00 New York, N. Y., City of, serial</td>
<td>3</td>
<td>1967</td>
<td>990.00</td>
<td>1,052.50</td>
</tr>
<tr>
<td>1,000.00 New York, N. Y., City of, corporate stock</td>
<td>3</td>
<td>1979</td>
<td>968.75</td>
<td>1,067.50</td>
</tr>
<tr>
<td>3,000.00 New York State Electric &amp; Gas Corp. first mortgage</td>
<td>3 ¾</td>
<td>1964</td>
<td>3,116.25</td>
<td>3,318.75</td>
</tr>
<tr>
<td>5,000.00 New York Central Railroad Co. refunding and improvement mortgage series “A”...</td>
<td>4 ½</td>
<td>2013</td>
<td>2,912.50</td>
<td>2,706.25</td>
</tr>
<tr>
<td>5,000.00 Pennsylvania Railroad Co. series “E” general mortgage</td>
<td>4 ¼</td>
<td>1984</td>
<td>4,900.00</td>
<td>5,262.50</td>
</tr>
<tr>
<td>5,000.00 Southern Pacific Co.</td>
<td>4 ½</td>
<td>1981</td>
<td>4,251.25</td>
<td>2,987.50</td>
</tr>
<tr>
<td>3,000.00 United States of America Savings bonds series “G”</td>
<td>2 ½</td>
<td>1953</td>
<td>3,000.00</td>
<td>2,907.00</td>
</tr>
<tr>
<td>5,000.00 United States of America Savings bonds series “G”</td>
<td>2 ½</td>
<td>1955</td>
<td>5,000.00</td>
<td>4,940.00</td>
</tr>
<tr>
<td>100 shs. Kennecott Copper Corporation common</td>
<td></td>
<td></td>
<td>3,241.00</td>
<td>3,112.50</td>
</tr>
<tr>
<td>50 “ P. Lorillard Company preferred.</td>
<td></td>
<td></td>
<td>7,839.55</td>
<td>7,812.50</td>
</tr>
<tr>
<td>100 “ New Jersey Zinc Company capital stock.</td>
<td></td>
<td></td>
<td>6,269.00</td>
<td>6,025.00</td>
</tr>
<tr>
<td>100 “ Pacific Gas &amp; Electric Company 6% first preferred</td>
<td></td>
<td></td>
<td>3,403.50</td>
<td>3,575.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$63,473.05</td>
<td>$60,068.25</td>
</tr>
</tbody>
</table>

*Current redemption value.*

**AMERICAN INSTITUTE BENEVOLENT FUND, INC.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Maturity</th>
<th>Cost</th>
<th>Market Value August 31, 1943</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 3,000.00 New York, N. Y., City of, serial</td>
<td>3</td>
<td>1967</td>
<td>$2,970.00</td>
<td>$3,157.50</td>
</tr>
<tr>
<td>5,000.00 United States Treasury bonds</td>
<td>2 ½</td>
<td>1969/64</td>
<td>5,000.00</td>
<td>5,004.69</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$7,970.00</td>
<td>$8,162.19</td>
</tr>
</tbody>
</table>
To the Members of the
American Institute of Accountants:

Gentlemen: This report of the council will not attempt to present a complete summary of the year's work. In fact, the work has grown so tremendously that it would be impossible to do so within reasonable limits of time. A full appreciation of the highly effective labors of those who have participated in this year's work can be obtained only by reading the reports of officers and committees. These will be printed as soon as possible after the annual meeting, and the council earnestly requests every member to read them carefully. No one can be fully informed of the wide range and variety of the problems with which the Institute is dealing without reading these reports.

Meetings

The council has held the three customary meetings, one immediately following the annual meeting at Chicago; one two-day meeting at New York in the spring in May, and one immediately preceding this meeting. The bulk of the council's work is done at the May meeting, when complete reports of all officers and committees are received and acted upon, when members of the Advisory Council of State Society Presidents, and officers of the American Accounting Association, who are invited to attend, bring up any questions which they wish to have considered, and when all current problems of the profession are thoroughly reviewed.

Trial Board

Sitting as a trial board, the council expelled a member of the Institute whose CPA certificate had been revoked by the state board of accountancy which issued it.

Wartime Activities

Five hundred and ninety-three members and associates of the Institute are now in the armed forces.

Appreciating that the war and its successful conclusion must continue to be our first concern, the executive committee adopted a war program to marshal all the facilities of the Institute so that they could be brought to bear most effectively in the service of the country. This program has been faithfully adhered to throughout the year. No opportunity for war service has been neglected.

As most members know, the committee on accounting manpower has rendered distinguished service in clarifying the status of members of the accounting profession under the Selective Service Act. The staff has referred many accountants to the armed services and other agencies, and has found qualified accountants already in the armed services who could be transferred to work where their professional qualifications were needed.

Committees have advised branches of the armed forces, congressional committees, and various government agencies on questions arising in relation to contract renegotiation and termination; reports required by war agencies from industrial and commercial enterprises, and government auditing problems.

Through The Journal of Accountancy and other publications the profession has been kept informed of government rules and technical questions of accounting and auditing which affect the certified public accountant's work. The committees on accounting and auditing procedure have suggested solutions to some of the questions in financial statement presentation and auditing arising from war conditions.

Taxes are an important element of war economy. The Institute has made a number of constructive suggestions for improvement of both the federal tax law and its administration. Many of these suggestions have been adopted. Included among them was the plan under which extensions of time for filing corporate income and excess-profits-tax returns for the calendar year 1942 were granted by the Treasury Department. Studies are now under way which it is hoped may result in proposals for simplification of the tax machinery, which is so urgently needed. The work of the committee on federal taxation has grown to such an extent, and its opportunities for service have become so numerous, that a technical assistant has been en-
gaged to devote full time to its work. This action was taken by the council on the recommendation of the Advisory Council of State Society Presidents.

The council recommends to the membership adoption of the following resolution:

WHEREAS, since the enactment of the original income tax law in 1913 there have been twenty statutes making revisions thereof passed respectively in 1916, 1917 (two), 1918, 1921, 1924, 1926, 1928, 1932, 1934, 1935, 1936, 1937, 1938, 1939, 1940 (two), 1941, 1942, and 1943; and, the members of the American Institute of Accountants believe that such annual revisions of the tax laws have resulted in the creation of a very complex tax structure which is highly detrimental to the prosperity of the country, and they believe that the permanent establishment of sound principles of taxation is urgently required to give taxpayers the necessary confidence to face the future;

BE IT RESOLVED that the American Institute of Accountants urges that Congress establish as soon as possible a qualified non-partisan commission composed of members of Congress, representatives of the Treasury Department, independent lawyers, accountants, and economists to write a simple revenue law which will express a permanent and consistent policy of federal taxation.

This resolution and other recommendations of the council will be dealt with after this report has been completed.

REGULAR PROFESSIONAL ACTIVITIES

Board of Examiners

The work of the Institute's board of examiners receives little publicity, but it is of fundamental importance in the maintenance of high professional standing. Forty-three states, the District of Columbia, and four territories now adopt the standard examination which the board prepares. A tremendous amount of time and energy is devoted by the members of the board to this task, as well as to the work of passing on applications for admission to the Institute, of which 1,100 were received last year. The board has cooperated closely with the Association of CPA Examiners, through which the experience and advice of all state accountancy boards is readily available.

The three day examination inaugurated during the past year has proved universally successful.

Committee on Professional Ethics

The committee on professional ethics has continued its activities in the maintenance of the standards of professional conduct by considering and acting upon complaints, investigating reports of improper conduct on the part of members, and answering inquiries from members of the profession who seek advice on the best course of procedure in various circumstances.

Executive Committee

The executive committee, which acts for the council between meetings of the governing body, has held five meetings and has supervised the entire administration of the Institute.

The matter of practice by certified public accountants before the United States Tax Court is having active consideration, and recent conversations have been held in Washington on the subject.

The executive committee adopted a resolution endorsing pay-as-you-earn taxation.

Council approved a recommendation of the executive committee that the Institute should take the lead when appropriate in attempting to prevent misconstruction of accounting principles in litigation in which accounting questions are involved.

The executive committee has also given careful study to the problem of the relationship of the accounting profession to federal legislation, which increasingly involves elements of accounting and auditing. Information is being submitted by the Institute to members of Congress whenever it appears it may be helpful to them.

Under authority of the council, the executive committee adopted a resolution recommending an amendment to section 270 of the Federal Bankruptcy Act in an effort to remove inequities in reduction of the tax base of property of a corporation reorganized under the act.

The Institute has cooperated with the Treasury Department in urging the adoption of payroll deduction plans for the purchase of war bonds, in studying problems related to recognition of postwar reserves, and in review of portions of Form TFR 500, calling for information on foreign property owned by citizens of the United States.

An editorial appearing in a nationwide
chain of newspapers implied that the accounting profession opposed tax simplification on the ground that complex tax laws made more work for its members. The Institute wrote to the newspaper chain concerned setting forth the true situation, namely, that the professional accountant was more concerned with the simplification of tax laws and procedure. As a result of this letter, a later editorial appeared in the same newspapers acknowledging the error, and apologizing therefor.

The committee has also sponsored studies of aptitude tests designed to determine the qualifications of individuals for the accounting profession.

On recommendation of a special committee, the council has approved a program of three annual awards to be granted by the Institute: one for outstanding contributions to the advancement of the accounting profession; one for the best literary contribution; and one for the best research work by a student.

Under authority of the council, the executive committee adopted the following resolution related to firm names or titles of public accounting firms:

**WHEREAS** The American Institute of Accountants committee on state legislation has requested the council of the Institute for an expression of opinion as to the Institute’s policy toward legislative proposals which would prevent continuation of a firm name containing the names of former partners who have died or who have withdrawn from the partnership, and

**WHEREAS** said council of the American Institute of Accountants believes it desirable that the policy of the Institute on this question be recorded;

**NOW THEREFORE BE IT RESOLVED** that in the opinion of the council of the American Institute of Accountants neither the public interest nor the interest of the accounting profession as a whole would be served by legislation preventing the use by public accounting firms of firm names or titles which contain the names of partners who have died or withdrawn from the firm; and be it further

**RESOLVED** that the committee on state legislation be instructed to oppose legislative proposals of the type described in this resolution.

On recommendation of the committee on professional ethics, the council approved the following amendment to the rules of conduct, designed to restrict publication of cards except for the specific purpose of announcing change in address, or personnel of firm. The recommendation was originally made by the Advisory Council of State Society Presidents.

“A member or an associate shall not advertise his professional attainments or services. The publication of what is technically known as a card is restricted to an announcement of the name, title (member of American Institute of Accountants, CPA, or other professional affiliation or designation), class of service, and address of the person or firm, issued in connection with the announcement of change of address or personnel of firm, and shall not exceed two columns in width and three inches in depth if appearing in a newspaper, and not exceeding one-quarter of a page if appearing in a magazine, directory, or similar publication.”

Council presents this proposed amendment of rule No. 10 for the consideration of the membership at the annual meeting, with the understanding that if approved it will be submitted to all the members for vote by mail ballot.

**Securities and Exchange Commission**

The Institute committee on cooperation with SEC has been active during the past year. It arranged for several members of the Commission and members of its staff to meet with the council at the time of the May meeting to discuss a rule of the Commission relating to the independence of accountants. The meeting clarified the problem, and the rule in question was amended by the Commission after a later conference with the Institute committee. Various releases of the Commission have been submitted to technical committees of the Institute before publication.

**Governmental Accounting**

With the approval of the executive committee, the committee on governmental accounting has arranged a conference on federal government accounting to be held in New York, December 2 and 3, 1943, with the objective of contributing to the solution of internal accounting and auditing problems of the federal government. The principal government agencies are expected to cooperate in the conference.

**State Legislation**

Model CPA bills have been drafted by the committee on state legislation, and
will be submitted to state society presidents and state accountancy boards for criticism during the current year.

At the recommendation of the committee, the council adopted the following resolution relating to provision for special licenses for practice in certain fields of accounting:

WHEREAS, it appears unreasonable and not in the best interest of the public to provide for examinations and licenses for practice in the many specialized fields in which certified public accountants serve,

THEREFORE BE IT RESOLVED, that the council of the American Institute of Accountants opposes as contrary to the fundamental principles underlying training of persons for public accounting and auditing practice, the granting of special examinations or the issuance of special licenses for auditors of a special industry or of public bodies.

At the recommendation of the committee, the council adopted the following resolution relating to legislation permitting the issuance of certified public accountant certificates by waiver:

WHEREAS, there is a tendency when changes are proposed in accountancy laws for those in various accounting pursuits to seek waiver of the written examination to qualify for the certified public accountant certificate, and

WHEREAS, all state and territorial accountancy laws provide in addition to other requirements that applicants shall pass a written examination for the certified public accountant certificate, and

WHEREAS, the granting of a certified public accountant certificate without a written examination conforming to the standard which has become uniform throughout the country tends to lower the prestige of the certified public accountant certificate, not only locally, but nationally, and

WHEREAS, representatives of commerce, industry, banking and government have testified to the public need for maintaining high standards for the certified public accountant certificate, therefore

BE IT RESOLVED, that the council of the American Institute of Accountants reaffirms its opposition to proposed amendments to accountancy laws which would permit applicants to obtain the certified public accountant certificate without written examination.

Other Organizations

Various committees have worked with other bodies interested in accounting and auditing, including the American Accounting Association, the National Association of Cost Accountants, Controllers Institute of America, and the Institute of Internal Auditors. Co-operative activity has been maintained with the New York Stock Exchange, Robert Morris Associates, National Association of Manufacturers, Association of Investment Companies, and other business and financial groups. The Institute has also been in communication with various government agencies in addition to the Securities and Exchange Commission, such as the Interstate Commerce Commission, the Federal Power Commission, the Federal Communications Commission, and the National Association of Railroad and Utilities Commissioners.

State Societies

Each year the working relations between the state societies and the national organization have improved. Close coordination of their activities is clearly desirable. While the Institute deals primarily with problems that are national in character, and center in the activities of the federal government and national organizations, and the state societies deal principally with problems in their own communities, it is nevertheless true that the activities of either type of organization have a direct bearing on the interests of all certified public accountants. Every effort is being exercised to provide a full flow of information between the national and the state organizations, and to bring about a meeting of minds on questions of policy. In accordance with a recommendation of the Advisory Council of State Society Presidents, a special committee was created under authority of the council to study this matter thoroughly in the hope of accelerating progress in coordination of national and state activities. This committee has reported progress and is continuing its activities. Officers of the Institute have addressed a number of state societies during the past year, and everywhere they met with a most cordial reception.

Administrative Matters

Annual Meeting

In view of wartime uncertainties, it is
suggested that the membership again empower the executive committee to select the time and place for the annual meeting of the Institute, and to determine the scope of the program.

Yearbook

Council has approved a recommendation that publication of the yearbook be omitted in the fiscal year 1943-1944, but that committee reports be published in pamphlet form, and also a list of the names and addresses of members and associates admitted since the appearance of the 1942 yearbook last spring. This recommendation is made partly in view of the shortage of paper, the use of which has now been restricted; partly as an economy measure, which seemed practicable because the 1942 yearbook appeared so late in the year. A new yearbook, to be designated 1943-1944, will be published early in the fall of 1944.

By-laws

Council approved proposed amendments to the by-laws designed to reduce fees payable for reinstatement of members who had resigned, or whose membership had terminated automatically under the by-laws. This recommendation will be submitted by the committee on by-laws at this meeting, and if approved, will be submitted to the entire membership for a vote by mail ballot.

Pension Plan

The council, at its May meeting, adopted a pension plan for the benefit of the Institute's employees, on recommendation of the executive committee, after approval by legal counsel, and careful explanation and thorough discussion. Under the plan, modest retirement income will be provided for staff members at an annual cost to the Institute which was estimated at something less than $4,000.

Staff

There has been considerable turnover in the staff of the Institute due to war conditions. During the year the personnel dropped from what was considered normal strength of 43 to a low point of 35. Altogether, 18 of the regular staff have withdrawn since the United States entered the war, and in addition 14 of those employed to replace them have withdrawn after comparatively short periods of service. Therefore, it has been necessary to employ 32 new assistants in a period of less than two years. There has been difficulty in securing replacements but by patient effort they have been found. The staff now numbers 42. The rapid turnover in personnel, and the increasing scope of activity has placed heavy burdens on the staff, and the council has expressed its appreciation to those in key positions for their loyal and effective services.

Condition of the Institute

The membership of the Institute at August 31, 1943, was 7,137, composed of 5,471 members, and 1,666 associates. The net gain over the previous year was 684. The circulation of The Journal of Accountancy has increased remarkably, rising from 16,854 to 19,869 in the past fiscal year. Advertising revenues have also increased. The financial position of the Institute is excellent. There was an excess of income over expenses of approximately $18,000 in the past year, which amount has been added to the contingency fund, now totaling $63,251. The budget which has been adopted for the coming year, however, indicates that all revenues which may be expected will have to be expended if the responsibilities which the Institute has assumed are to be fairly discharged.

Durand W. Springer

During the past year the profession lost one of its most distinguished members. The executive committee adopted the following resolution in recognition of his services to accountancy:

Whereas Durand W. Springer devoted the greater part of his life, with tireless and wholly unselfish enthusiasm, to the advancement of the accounting profession; as president and secretary of the American Society of Certified Public Accountants and secretary of the Michigan State Board of Accountancy he rendered substantial services in the organization and development of state societies of certified public accountants; he brought about thoughtful consideration of problems of state accountancy legislation; he rendered personal assistance to innumerable individual certified public accountants; and took a large part in bringing about the merger of the two national accounting organizations in 1936;

Be It Resolved that the executive committee of the American Institute of Ac-
countants hereby record its profound sorrow on learning of the death of Durand W. Springer on May 18, 1943, and that the said executive committee also record its recognition of the great contribution he made to the progress of the accounting profession in the United States.

FURTHER RESOLVED, that this resolution be inscribed in the minutes of the executive committee and that a copy be sent to Mr. Springer’s family.

Respectfully submitted,
Special Committee
GEORGE COCHRANE, Chairman
ERNEST H. FLETCHER
CHARLES W. JONES
October 18, 1943

Reports of the Executive Committee

MIDYEAR REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The executive committee has held three meetings since its election at Chicago last October. Minutes of all meetings (with the exception of the meeting held May 9th) have been sent to all members of the council, who have thereby been kept currently informed of the executive committee’s actions. Therefore, it seems unnecessary to repeat the details at this time, and this report is accordingly confined to matters of major importance.

WARTIME PROGRAM

At its first meeting the executive committee adopted a program of activity for the Institute for the fiscal year 1942-1943, emphasizing activities related to the war effort and requesting committees whose work is not related to wartime problems not to initiate any activities this year, but to hold themselves in readiness to deal with any matters that might be referred to them. The result has been that the full energies of the staff have been devoted to work to which it seemed most appropriate to give priority in wartime. The war program of the Institute was published in The Journal of Accountancy for December, 1942, for the information of the membership.

At each meeting of the executive committee reports have been received from the active committees, but since each of these committees will report directly to the council, it would be repetitious to summarize their accomplishments here. These accomplishments have been substantial.

In several instances the executive committee has co-operated actively with other committees in considering and dealing with problems involving questions of policy—for example: the change in the rules of practice before the United States Tax Court, in the discussion of which the president of the Institute, as well as the chairman and other members of the committee on federal taxation, took an active part; the consideration of the Securities and Exchange Commission’s amendments to its rule relating to the independence of accountants, in consideration of which the executive committee collaborated with the committee on co-operation with SEC; problems arising under the Selective Service Act, particularly the proposal of the committee on accounting manpower to testify before a subcommittee of the Senate Committee on Military Affairs with respect to Senate Bill 702.

PENSION PLAN FOR INSTITUTE EMPLOYEES

The executive committee recommends to the council adoption of a pension plan for the benefit of employees of the Institute. The following summary of the plan was sent to every member of the council with the agenda for the meeting on May 10th:

Plan: An Agreement of Trust constitutes the Plan and expresses its terms and provisions. Effective date: May 1, 1943.

Eligibility: All present employees, age 30 to 55 inclusive, who have completed three years of continuous service, and new employees who so qualify in the future, may participate.

Contributions: Employees contribute semi-monthly, in accordance with a schedule, from 86 cents to $19.38. The Institute contributes the balance required by the Trust to pay for Endowment and An-
nuity contracts as required to fulfill its terms.

Retirement Age: Age 65 with options for earlier and later retirement.

Retirement Income: As provided (subject to the limitations of the Plan) by contracts productive of income (not less than $180 per year) which, with present Social Security Retirement Benefits, generally amount to about one per cent or more of yearly pay multiplied by years of eligible service rendered in the past and the future.

Death Benefit: Before retirement: $1000 for each $120 yearly annuity purchased, contributions made, or the cash value of contracts, as the case may be.

After retirement: Unpaid portion of 120 monthly payments certain or such as may be provided by election of options.

Withdrawal Benefit: To employer: The cash value of such contracts as shall not have vested in employee, as a credit against future contributions.

To employee: Contracts purchased by his own contributions plus, provisionally, a part or all of contracts purchased by employer’s contribution, depending upon years of eligible service on withdrawal.

Companies: Central Hanover Bank and Trust Company, New York, N. Y., as Trustee; National Life Insurance Company, Montpelier, Vermont, as principal life insurance company.

Modifications: The Institute will reserve full rights to alter, amend, or revoke the Plan with respect to future benefits and contributions.

Constructed by: F. Ellsworth Baker, 55 Liberty Street, New York, N. Y.

Cost Estimate: Institute contributions to Trust, first year (assuming full participation by eligible employees) . . . . . $3400
Trustee’s fee, first year . . . 250

The cost of future years will depend, among other factors, on the number of participants, salaries paid, withdrawal credits, and dividends declared by the insurance company which are not included above.

Retirement Wage: The Institute will expect to pay three present employees, over age 55 on the effective date of the Plan, and therefore ineligible, a retirement wage on attaining age 65, consistent in amount with plan incomes. The first retirement-wage payment would not be made before 1949.

The details of the plan have been incorporated in the pension trust agreement (exclusive of provision for retirement wage payments) which has been reviewed by the committee on budget and finance, by counsel for the Institute, by the Central Hanover Bank and Trust Company, which is proposed to serve as trustee, and by the National Life Insurance Company, Montpelier, Vermont, from which it is proposed to purchase the necessary contracts. The plan is believed to be in harmony with modern business practice and to conform with the provisions of the Internal Revenue Code. The executive committee believes that such a plan would be of advantage to the Institute for the following reasons: (1) it would relieve the Institute of the possible moral obligation to make payments out of future income to members of the staff who, after long years of service, may be unable to continue to support themselves; (2) it should tend to reduce turnover in the staff by providing an incentive to employees to remain with the Institute.

The cost to the Institute of annual premiums to maintain the contracts required to be purchased under the pension trust agreement will vary with changes in the payroll and additions to or resignations from the staff. It is believed, however, that dividends, which may reasonably be expected annually after payment of the second annual premium on each contract, will tend to reduce the cost to the Institute, and that there is no likelihood of such cost amounting to more than $4,000 in any year in the near future.

It has been found impracticable to provide in the pension trust agreement for the purchase of endowment annuity contracts or other forms of contracts to provide retirement income for three members of the staff who have reached the age of 56. Accumulation of reserves sufficient to produce the amount of retirement income called for by the plan, in the short time available before these three employees will reach retirement age, would be possible only at very high premium rates. If the council adopts the pension plan as recommended, therefore, the executive committee believes that council should signify by resolution its intention to pay these three employees, after reaching retirement age of 65, but only during the remaining life
of such employees, amounts to which they would be entitled if they were participants in the plan, such retirement income to be paid from the income of the Institute. This involves a maximum payment of about $1,500 a year. However, since it is not desirable to create a legal obligation to pay such retirement income for these three employees, which for various reasons might be impossible, the resolution should not provide for any contribution by these three employees, such as is required of actual participants in the plan.

At the request of the executive committee, counsel for the Institute has drafted appropriate resolutions to adopt the Pension Plan and authorize execution of the pension trust agreement, to appoint a pension committee in accordance therewith, and to express the intention of making payments to the three employees who have reached age 56, which are submitted for consideration of the council as follows:

WHEREAS, there has been submitted to the council a form of agreement dated as of May 1, 1943, between the American Institute of Accountants, the American Institute Publishing Co., Inc., the employees of said organizations who become parties thereto in the manner therein provided, and Central Hanover Bank and Trust Company, as Trustee; and,

WHEREAS, the council is of opinion that it is desirable to adopt and carry out the Pension Plan therein designated as the "American Institute Pension Plan" and set forth in detail in said agreement; and,

WHEREAS, said agreement has been duly approved and authorized by the executive committee of the American Institute of Accountants:

NOW, THEREFORE, BE IT RESOLVED:

That the council of the American Institute of Accountants does hereby approve said agreement and the plan embodied therein, and does hereby authorize the president and secretary of the American Institute of Accountants to execute the same on behalf of the Institute in the manner indicated in said agreement;

That the appropriate officers and committees of the Institute are hereby authorized to take such further steps as are necessary for the execution, delivery, and performance of the said agreement on the part of the Institute, and

That a copy of said agreement be made a part of these minutes.

A resolution should be adopted to ap-point a pension committee under the agreement, in the following form:

RESOLVED, That ________________ , ________________ and ________________ are hereby appointed as a committee to be known as the "Pension Committee," pursuant to the agreement dated as of May 1, 1943, relating to the American Institute Pension Plan which has heretofore been authorized.

WHEREAS, the form of agreement approved at this meeting embodying the American Institute Pension Plan does not provide for participation by employees over the age of fifty-five (55) years, six months, because no provision could be made for the inclusion of such employees except at excessive cost; and,

WHEREAS, there are three employees of the Institute who are over the age of fifty-five (55) years, six months: Helen M. Johnstone, James D. Wood, and Susan Ranney (the said Susan Ranney being also an employee of the American Institute Publishing Co., Inc.), and it is the sense of this resolution that provisions be made so that these three employees shall receive monthly income benefits throughout their lifetimes equal to those which will be received by the participants in the Plan from their own contributions as employees of the Institute and from contributions by the Institute:

NOW, THEREFORE, BE IT RESOLVED:

That if the Pension Plan is still in effect when each of these employees reaches the retirement age provided by the plan, it is the intention of the American Institute of Accountants to make voluntary payments to such employees throughout the remainder of their lives after their attaining the retirement age provided in the plan in amounts equal to what they would have received from their own contributions as employees of the Institute and from the contributions by the Institute if they had been permitted to participate in the Plan.

ADVISORY COUNCIL OF STATE SOCIETY PRESIDENTS

The presidents of all state societies of certified public accountants have been invited to attend the meeting of council of the Institute May 10, 1943, and have been requested to seek from their boards of directors suggestions as to any matters which they believe should be brought before the council.

Recommendations of the Advisory Council at its meeting in Chicago last September, which were referred to the executive
committee with power by the council of the Institute, have had careful consideration by the executive committee.

In response to the recommendation that the Institute assign a member of its staff to serve as assistant secretary of the Advisory Council, the executive committee designated Frank A. Gale, assistant secretary of the Institute, to act in that capacity. Mr. Gale has conferred with J. Arthur Marvin, the chairman of the Advisory Council, with respect to the plan of activities for the year.

The Advisory Council had recommended that the Institute appoint a permanent committee, consisting of vice presidents and presidents of state societies, none of whom are now members of the council of the Institute, to make a complete study of the question of integrating the profession, and endeavor to present for the consideration of the Advisory Council of State Society Presidents and the Institute a definite program of recommendations as to how closer coöperation between state societies and the Institute might be attained. It was the sense of the executive committee that this recommendation merited extensive consideration and that any action taken should be the result of deliberate discussion. Accordingly, it was resolved that the matter be referred for the consideration of the council of the Institute at its spring meeting. The executive committee has no objection to the appointment of a committee to study this important subject, but it questions the desirability of having the study conducted by a committee which excludes members of the council of the Institute, among whom are all the past presidents of the Institute. Members of the council may be presumed to be most familiar with the administrative problems of the national organization, which should be considered in any discussion of closer relations between state societies and the Institute. The executive committee also questioned whether the initiation of a study of this kind would be regarded by members of the Institute as evidence that there was widespread dissatisfaction with the present organization of the profession, which the executive committee does not believe to be the case. Relations between the state societies and the Institute have improved rapidly in the past ten years, and today not only the utmost goodwill but also effective working relationships seem to prevail. There are numerous forms of organization of trade, business, and professional groups in this country, each of which has its advantages and disadvantages. Some of the forms of organization which seem most logical in structure are not always the most effective in practice. The executive committee believes that the progress of the state societies and the Institute in recent years has been so satisfactory that no radical change in structure, the results of which could not be foreseen, should be attempted suddenly. However, there is always room for gradual improvement, and the council may desire to initiate a study of this question, which the Advisory Council of State Society Presidents has indicated it regards as important.

The Advisory Council, at its September meeting, also recommended that the Institute employ a technical assistant for the committee on federal taxation, in order to permit an enlargement of the scope of the committee's activity. This proposal has been approved by both the executive committee and the committee on federal taxation, and efforts have been made to find a suitable person to undertake the work. In view of the shortage of competent accountants, this effort has not yet been successful, but it will be continued, and the executive committee recommends that provision be made in the revised budget, to be presented to the council at its May 10th meeting, for compensation of a technical assistant to the committee on federal taxation for the balance of the current fiscal year. The technical assistance which the committees on accounting procedure, auditing procedure, and war activities receive from the research department greatly facilitated their work. The executive committee believes that a full-time salaried assistant could relieve the members of the committee on federal taxation of a great amount of detail, speed the exchange of views among the members who reside in different communities, and increase the committee's accomplishments by performing the necessary research work, making preliminary drafts of reports or other statements, and following up items on the committee agenda which might
otherwise be delayed. The committee on federal taxation deals with one of the areas most important to the accounting profession at the present time. Members of that committee have come to the conclusion that they cannot take full advantage of the opportunities now available to the profession to render constructive service in the formation of federal tax policy and in its administration without salaried assistance in handling the rapidly increasing volume of work.

The Advisory Council also recommended that a rule of professional conduct be adopted by the Institute prohibiting all advertising in any form by members and associates of the Institute with the proviso that this prohibition would not apply to announcements of changes of address, changes in partnership personnel, and similar announcements, and that the rule should not become effective until one year after its adoption. It was pointed out that the practical effect of this rule would extend the scope of the present rule No. 10 only by prohibiting the publication of cards in telephone directories and other publications, except for the purpose of announcing changes of address and partnership personnel, and similar announcements. This recommendation was referred to the committee on professional ethics with a request that it report its recommendations with regard to the Advisory Council's proposal at the spring meeting of council. It was suggested also that the committee on professional ethics consider the possibility of dealing with this matter by a rule providing that if a state society should adopt such a prohibition against advertising, any member of the Institute within the state concerned who violated the rule would also be subject to disciplinary action by the Institute. A rule of this kind would resemble the present rule No. 14, which deals with competitive bidding in the same manner.

Another expression of opinion of the Advisory Council, to the effect that it is ordinarily desirable that members of the Institute council and members of the Institute's nominating committee should be members of the state societies in the states from which they are elected, and that the nominating committee may seek the advice of governing bodies of the state societies on questions related to nominations for membership in the council of the Institute, was referred by the executive committee to the Institute's committee on nominations.

**Associated Gas & Electric Case**

The executive committee considered questions of policy arising from the findings and opinions of the Securities and Exchange Commission in the matter of Associated Gas and Electric Company, but concluded that no further consideration of the matter, nor public discussion of any of the questions involved, could properly be undertaken until the committee on professional ethics had completed its consideration of the case.

**Practice before United States Tax Court**

Members of the Institute have been notified through *The Journal of Accountancy* of a change in rules of practice before the United States Tax Court, which now require certified public accountants who wish to be enrolled to practice to take a qualifying examination, although certified public accountants already admitted to practice before the Board of Tax Appeals will continue to have the privilege of practice before the Court. The qualifying examination may be waived in the case of attorneys.

This rule was adopted as a result of a provision of the 1942 revenue act, changing the name of the Board of Tax Appeals to the United States Tax Court, with the additional proviso that no qualified person might be denied admission to practice before the Tax Court because of his failure to be a member of any profession or calling. Members of the Court had expressed complete satisfaction with the former rule of practice admitting both attorneys and certified public accountants without examination, but when the 1942 act opened the door to all persons, whether members of recognized professions or not, the court found it necessary to require a qualifying examination. Exemption of attorneys from this examination is based on long standing precedents in various courts and federal administrative agencies.

This whole matter was the subject of active consideration by the Institute from the time that the amendment was first proposed in Congress. The Institute expressed its disapproval of the provision ex-
tending the privilege of practice to all, regardless of profession or calling. The Board of Tax Appeals likewise disapproved it, but it was included in the bill as finally enacted.

The whole provision changing the name of the Board and including this objectionable provision was dropped from the Senate bill, but was reintroduced in conference and enacted as a part of the 1942 act without further hearings. Following passage of the act, representatives of the Institute, including the president, the chairman of the committee on federal taxation, and counsel for the Institute, discussed the whole problem at great length with representatives of the new United States Tax Court, but were unable to convince them that it would be practicable to exempt certified public accountants as well as attorneys from the qualifying examinations. Consideration is now being given to the desirability of attempting to secure further amendment of the Internal Revenue Code which would make it possible to reestablish the rules of practice before the Board of Tax Appeals for purposes of the new Tax Court.

PAY-AS-YOU-EARN TAXATION

After considerable discussion, the executive committee at its meeting January 28, 1943, adopted the following resolution in support of a pay-as-you-earn plan for payment of individual federal income taxes:

"The executive committee of the American Institute of Accountants at its meeting on January 28, 1943, passed the following resolution:

"The American Institute of Accountants for over twenty-five years has advocated the collection of federal income taxes on a current basis, by withholding at the source as much of the tax as possible, to make payment easier for taxpayers and collection more certain for the government.

"Under present conditions it will be difficult if not impossible for most taxpayers to pay two years' taxes in one. The change to the pay-as-you-go basis will be for the common good, regardless of the fact that there will be fortuitous benefit to some.

"As the United States Treasury operates on the cash basis there is no reason to suppose that its receipts from taxation of individuals in the calendar year 1943 would be any less if the pay-as-you-go system were adopted than on the present basis. Furthermore, over a long period of years it is likely that the income of this country will increase and that the receipts under a pay-as-you-go system, although continuing to fluctuate between years, would be greater with the same tax rates than under the present system.

"The president of the Institute is instructed to release the foregoing resolution, and the Institute's committee on federal taxation is authorized to undertake a voluntary appearance at the hearings to be held in Washington, D. C., on the subject, and the committee also is authorized to correspond with congressional committees on any accounting questions which may be referred to it on the subject."

Copies of the resolution, by instruction of the executive committee, were released to the press, and were transmitted to appropriate members of Congress. Subsequently, the executive committee received from several members of the Institute expressions of opinion indicating disapproval of this action. At the time it adopted the resolution, however, the committee believed it desirable that the national organization of certified public accountants, representing a profession whose members are generally regarded as authorities in tax matters, should express itself on a tax policy of immediate concern to a large proportion of the citizens of the country. The resolution expresses the convictions of all the members of the executive committee on this question.

WAGES AND HOURS

As already reported to the council, the Institute last year undertook to cooperate with a member who wished to test in court the applicability of the Fair Labor Standards Act to his employees. A complete brief of the law was prepared by counsel for the Institute and copies were sent to the member and his lawyer. The case came before the United States District Court in the Eastern Judicial District of Missouri, through an action of the Wage and Hour Division to compel compliance with a subpoena ordering the Institute member concerned to produce his books and records for inspection by the Division. The member moved to dismiss the action on the ground that the application did not allege any facts to show that any employee of the member was engaged
in interstate commerce, and the District Court dismissed the application of the Wage and Hour Division without opinion. The member requested that publication of this decision be withheld, and this was done as the decision turned merely on the form of the application and provided no answer to the question whether public accountants are engaged in commerce or the production of goods for commerce. As the time for appeal was about to expire the Supreme Court made a decision which strengthened the position of the Wage and Hour Division on the question of books and papers, and the Administrator then filed an appeal to the Circuit Court of Appeals. From all the information available it appeared that the appellate court's consideration would be devoted entirely to the question of whether the Wage and Hour Division could inspect the member's books and records, a question of secondary interest to the Institute, without the likelihood of a ruling on the question of primary interest as to the status of employees of public accountants under the act. After considering the advice of counsel, the executive committee concluded that it would not participate in the matter any further, at least until such time as the question of principal interest might become more directly involved.

ANNUAL MEETING 1943

In pursuance of the authority vested in the executive committee by the members present at the annual meeting in Chicago, October 1, 1942, and in view of the success of the 1942 annual meeting, the executive committee resolved that arrangements be made, subject to cancellation if necessitated by war conditions, for an annual meeting of the Institute, October 18th to 21st, at the Waldorf-Astoria Hotel, New York, similar in pattern to the 1942 annual meeting. Up to the present time there has been no indication that it will not be possible to hold the 1943 annual meeting, and the committee on technical sessions has already outlined a program and has invited many of the speakers who are to appear.

AMENDMENT TO RULES OF CONDUCT

The executive committee received the following report of the results of the mail ballot on the proposal to amend rule No. 13 of the rules of professional conduct, approved at the annual meeting in September, 1942:

<table>
<thead>
<tr>
<th>Entitled to vote</th>
<th>Yes</th>
<th>No</th>
<th>Not voting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,198</td>
<td>2,781</td>
<td>105</td>
</tr>
</tbody>
</table>

The president of the Institute declared the amendment effective as of December 15, 1942.

AMENDMENT OF BY-LAWS

The executive committee referred to the committee on by-laws a suggestion that section 3(a) of Article V of the Institute's by-laws, providing for reinstatement of members, be amended in order to make it consistent with the provisions for payment of entrance fees by new applicants.

PARTICIPATION IN ACCOUNTING CASES

The executive committee's attention has been drawn to several cases before the courts in which questions of accounting principle and procedure were major issues. In view of the growing importance of accounting as an instrument of regulatory control, it was the sense of the committee that the Institute should take the lead in attempting to prevent misconstruction and misapplication of accounting principles, if necessary by intervening as a friend of the court in cases in which questions of this nature were involved.

RESIGNATION OF A MEMBER OF THE EXECUTIVE COMMITTEE

The executive committee reports with regret the resignation as a member of the executive committee of T. Coleman Andrews, who accepted a commission as Captain in the United States Marine Corps. Since the committee is elected by the council, it appears necessary for the council to act upon the resignation, and if it accepts it, to elect another member to fill the vacancy for the balance of the current fiscal year.

MEMBERSHIP

The executive committee advanced from its own appropriation the dues of 80 members and 8 associates, who were unable through circumstances beyond their control to make payment before the expiration of the time limit, January 31st. Of the total amount advanced, $981.53 has been repaid. Thirty-two members and seven associates were dropped for nonpayment of
Reports of the Executive Committee

dues under the provisions of Article V, Section 2 of the by-laws. The committee has accepted the resignations of 13 members. One member was expelled, and one was suspended for one year. The dues of 226 members and 223 associates, serving in the armed forces, have been waived under the provisions of Article III, Section 2 of the by-laws.

The deaths of the following members and associates have been reported since September 1, 1942:

Members
Arthur F. Barnes
John J. Barry
Mervyn Braun
F. P. Byerly
John G. Coffin
Hugh L. Dickerson
Frank N. Dodd
Walter G. Fatchett
Michael J. Fitzgerald
David L. Grey
Edward O. Harper
Herman Herwood
F. W. Hilditch
Henry J. Jumonville
Anthony E. Kondoleon
Irville A. May
Edward R. Miller
William F. Milton
Edward P. Moxey, Jr.

Daniel A. Murray
John B. Phelan
Morris Pomerantz
John Henry Pritchard
L. F. Reinhard
James L. Ridgeway
Wilke Gerhard Tebbens
John C. Thomson
Fred Tourin

Associates
Frank A. Bardeen
Harry Eugene Black
Arthur F. Bowen
Edmund A. Chapman
Elmer G. Glidden
William Richard Kiddoo
Robert L. Osswalt
Herbert Wilson

The executive committee noted with deep regret the death of Austin H. Carr, Secretary-Treasurer of the Dominion Association of Chartered Accountants. A resolution of sympathy was adopted and was sent to Mr. Carr's family and to the president of the Dominion Association.

Securities

The following purchases and sales of securities in the several funds of the Institute have taken place during the current fiscal year:

<table>
<thead>
<tr>
<th>Securities</th>
<th>Sales</th>
<th>Cost</th>
<th>Profit *</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$15,000 United States Treasury 91-day Bills at 99.906 net</td>
<td>$14,985.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1,000 United States, 2 1/2% Treasury Bonds, due June, 1969/64</td>
<td>1,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingency Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$15,000 United States 2 1/2% Treasury Bonds, due June, 1969/64</td>
<td>15,000.00</td>
<td></td>
<td></td>
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</table>
**ENDOWMENT FUND**

<table>
<thead>
<tr>
<th>Sold:</th>
<th>Sales</th>
<th>Cost</th>
<th>Profit *</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,000 Atlantic Coast Line Railroad General Unified Mortgage, Series “A”, 4½%, 1964 at 70¾ less commission, stamps and SEC</td>
<td>$2,102.20</td>
<td>2,347.50</td>
<td>$245.30</td>
</tr>
<tr>
<td>2,000 Ditto at 70 less commission, stamps and SEC</td>
<td>1,393.96</td>
<td>1,565.00</td>
<td>171.04</td>
</tr>
<tr>
<td>5,000 Central Railroad Company of New Jersey, General Mortgage 5%, 1987 at 37¾ less commission, stamps and SEC</td>
<td>1,847.46</td>
<td>5,162.50</td>
<td>3,315.04</td>
</tr>
<tr>
<td>5,000 Cleveland Union Terminals Company, First Mortgage S.F., Series “C” 4½%, 1977 at 72¼ less commission, stamps and SEC</td>
<td>3,609.92</td>
<td>5,137.50</td>
<td>1,527.58</td>
</tr>
<tr>
<td>2,000 Erie RR Company, General income mortgage, series “A”, 4½%, 2015 at 57¾ less commission, stamps and SEC</td>
<td>1,143.97</td>
<td>1,130.00</td>
<td>13.97*</td>
</tr>
<tr>
<td>500 Ditto at 57¾, less commission, stamps and SEC</td>
<td>284.75</td>
<td>282.50</td>
<td>2.25*</td>
</tr>
<tr>
<td>4,000 Illinois Central RR Co. and (Chicago, St. Louis and New Orleans RR Co.) Joint—First Refunding Mortgage, Series “A”, 5%, 1963, at 56¼ less commission, stamps and SEC</td>
<td>2,237.95</td>
<td>3,620.00</td>
<td>1,382.05</td>
</tr>
<tr>
<td>1,000 Ditto at 55½, less commission, stamps and SEC</td>
<td>551.98</td>
<td>905.00</td>
<td>353.02</td>
</tr>
<tr>
<td>5,000 City of Jersey City, New Jersey, Serial Funding, 4%, 1950 at 105.3266, less commission, stamps and SEC</td>
<td>5,253.83</td>
<td>5,134.26</td>
<td>119.57*</td>
</tr>
<tr>
<td>5,000 Morris and Essex Railroad Co., Construction Mortgage, Series “B”, 4½%, 1955 at 42, less commission, stamps and SEC</td>
<td>2,084.95</td>
<td>4,612.50</td>
<td>2,527.55</td>
</tr>
<tr>
<td>4,000 Northern Pacific RR Co., Ref. and Imp. Mortgage, Series “B”, 6%, 2047 at 73¾ less commission, stamps and SEC</td>
<td>2,937.93</td>
<td>3,760.00</td>
<td>822.07</td>
</tr>
<tr>
<td>1,000 Ditto at 73¾, less commission, stamps and SEC</td>
<td>733.23</td>
<td>940.00</td>
<td>206.77</td>
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<tr>
<td>5,000 Pere Marquette RR Co., First Mortgage, Series “C”, 4½%, 1980 at 72, less commission, stamps and SEC</td>
<td>3,584.92</td>
<td>3,187.50</td>
<td>397.42*</td>
</tr>
<tr>
<td>5,000 St. Louis, San Francisco Railway Co., prior lien mortgage, Series “B”, 1950 at 32¾, less commission, stamps, and SEC</td>
<td>1,628.71</td>
<td>4,377.50</td>
<td>2,748.79</td>
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$29,395.76 | $42,161.76 | $12,766.00
Purchased:

<table>
<thead>
<tr>
<th>Description</th>
<th>Sales</th>
<th>Cost</th>
<th>Profit *</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 Shares American Telephone and Telegraph Company, capital stock, par $100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>at 142½, plus commission</td>
<td>$3,582.13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 Shares General Electric Company, common stock, no par at 35½, plus commis-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>sion</td>
<td>3,571.38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 Shares Ditto at 35½, plus commission</td>
<td>3,583.91</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 Shares General Motors Corporation, common stock at $10 at 48½, plus commis-</td>
<td></td>
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<tr>
<td>sion</td>
<td>4,912.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 Shares Standard Oil Company (New Jersey), capital stock, par $25 at 52½,</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>plus commission</td>
<td>5,300.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$9,000 United States Treasury Bonds, Series “G”, 2½% at 100</td>
<td>9,000.00</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$29,950.33</td>
</tr>
</tbody>
</table>

FOUNDATION

Sold:

$5,000 Baltimore and Ohio Railroad Co., 5-year secured notes, 5%, 1944 at 84 $4,185.00 $4,425.00 $240.00

Purchased:

$5,000 United States Treasury Bonds, 2½%, Series “G”, at 100 $5,000.00

BENEVOLENT FUND

Purchased:

$5,000 United States Treasury Bonds, 2½%, 1969/64 at 100 $5,000.00

The executive committee considered a suggestion from the chairman of the advisory council of state society presidents that efforts should be made, in cooperation with the state societies, to develop a program by which information related to accounting could readily be made available to legislators, public officials, and others who are dealing with accounting problems.

The executive committee believed the matter of sufficient importance to warrant the appointment of a special subcommittee to give it further study.

Respectfully submitted,

GEORGE S. OLIVE, Chairman

JOHN L. CAREY, Secretary

May 9, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The executive committee has held two meetings since the meeting of council May 10th and 11th, one on August 12th, and one on October 17th. Minutes of the August 12th meeting were sent to all members of the council. Between meetings the executive committee has passed on a number of questions submitted to the committee by mail.

MEMBERSHIP

The increase in membership of the Institute continues at a rate more rapid than was expected in wartime, and despite the continually growing number of members and associates, the turnover remains surprisingly small. Total membership at September 1st was 7,137, compared with 6,453 a year ago. Since the May meeting of council two associates have resigned. One member has been placed on the list of those
who, because of advanced years, are excused from payment of dues. Deaths of 23 members have been reported as follows:

Arthur K. Anderson
Julius J. Anderson
Wm. T. Burrows
William Mills Corliss
Milton A. Feldmann
Ted Ferguson
F. Richmond Fletcher
Abbott B. Foster
Alex. K. Fotheringham
Thomas F. Gorman
Vincent B. Haggerty
O. Edward Haman
Harold B. Hart
P. Reginald Herington
Kenneth R. King
Bennett D. Mattingly
Morton E. Setchell
Frank E. Soule
Durand W. Springer
John D. Stinger
P. J. Stouse
Charles E. Wermuth
William A. Wood

**Durand W. Springer**

The executive committee adopted the following resolution on learning of the death of Durand W. Springer:

**Whereas** Durand W. Springer devoted the greater part of his life, with tireless and wholly unselfish enthusiasm, to the advancement of the accounting profession; as president and secretary of the American Society of Certified Public Accountants and secretary of the Michigan State Board of Accountancy he rendered substantial services in the organization and development of state societies of certified public accountants; he brought about thoughtful consideration of problems of state accountancy legislation; he rendered personal assistance to innumerable individual certified public accountants; and took a large part in bringing about the merger of the two national accounting organizations in 1936;

**Be it resolved, That** the executive committee of the American Institute of Accountants hereby record its profound sorrow on learning of the death of Durand W. Springer on May 18, 1943, and that the said executive committee also record its recognition of the great contribution he made to the progress of the accounting profession in the United States.

**Further resolved, that** this resolution be inscribed in the minutes of the executive committee and that a copy be sent to Mr. Springer's family.

**Standing of Certified Public Accountant before Federal Government**

While in the business and financial world the certified public accountant has long been recognized as an independent expert, whose impartial review of the accounts of business enterprises is essential in credit granting, reports to stockholders and prospective investors, to management, and to government authorities, there have been a number of indications that in Congress and in some government agencies the qualifications of certified public accountants and their functions in our modern economy are not well understood. In the past ten years the trend toward wider regulation of business by government, and toward direct participation by government corporations in business enterprises, has greatly heightened the significance to the accounting profession of the government’s attitude toward the certified public accountant. The vast government procurement program required by war, giving rise to a multitude of complex accounting and auditing questions related to cost-plus-fixed-fee contracts, renegotiation and termination of contracts, together with problems created by federal taxation, has redoubled the importance of the government’s attitude toward the professional accountant.

To the extent that the reports of independent certified public accountants may be accepted by government agencies as credible evidence of the fairness of representations of cost and financial data submitted by war contractors, taxpayers, and others with whom the government deals, both the government and the citizens concerned may be relieved of laborious, costly, and time-consuming duplication of auditing.

Ever since the beginning of the defense program various aspects of this problem have been receiving the attention of the executive committee, and in the past few months it has been the subject of even greater discussion. At the meeting of the committee held May 9th, just prior to the council meeting, a subcommittee was appointed to study the relationship of the accounting profession to federal legislation and regulations involving questions of
accounting and auditing, and to report back to the executive committee. The subcommittee reported at the meeting of August 12th, and submitted a statement of objectives which was approved by the executive committee, as follows:

**OBJECTIVES**

1. To bring about an appreciation by the executive and legislative branches of the federal government of the qualifications and standards of the certified public accountant and the kind of services he renders.

2. To encourage acceptance by government agencies of reports of certified public accountants as a result of their examinations of the accounts of public and private bodies with which the government is concerned; as a means of reducing the expense of audits by government employees and of assuring unbiased and impartial presentation of the facts.

3. To bring about improvement of the federal government's internal accounting procedures with a view to increased efficiency and economy in government operations.

As one step toward the objectives agreed upon, an editorial outlining the part which the accounting profession can play in the postwar economy, and describing the professional accountant's qualifications for the job, was published in the September issue of *The Journal of Accountancy* under the title "A Magnificent Opportunity," and reprints were distributed to all members of Congress, and to government officials who might be interested.

On June 25th, Robert H. Montgomery sent to all members and associates of the Institute a letter suggesting the possibility of great improvement in the federal income-tax laws and their administration. Particularly, he suggested that corporate net income as shown by the books of account and certified by independent certified public accountants be accepted by the Bureau of Internal Revenue without further audit of the accounts except in unusual circumstances. Colonel Montgomery received more than 600 replies to this letter and, in view of the relationship of his proposal to the broad problem of the standing of the accounting profession before the federal government, he turned these letters over to the Institute for study. A number of them contained extremely helpful suggestions. The letters were analyzed, and a detailed report and summary of their contents has been submitted to the committee on federal taxation, and to the executive committee, which authorized the president of the Institute to discuss the matter informally with officials of the Bureau of Internal Revenue. This matter will have further consideration by the committee on federal taxation, and the executive committee, in the coming year.

Amended rules of practice before the United States Tax Court, which require certified public accountants not already enrolled to take a written examination for admission to practice, have also been the subject of further consideration. It appears that legislation would be necessary to restore the former rules under which certified public accountants were admitted without examination, and it cannot yet be determined whether such legislation will be proposed.

An editorial appearing in Scripps-Howard newspapers throughout the country in September, intimating that accountants were opposed to simplification of the tax laws because of possible reduction in the volume of their professional practice, was refuted in a letter sent to all editors of Scripps-Howard newspapers by the secretary of the Institute, which was published in many of the papers concerned, and was followed by another editorial acknowledging that the earlier allusion to the attitude of accountants toward tax simplification was unjustified.

At a meeting of the executive committee, the following resolution was approved for submission to the council, with the recommendation that it be submitted to the annual meeting of the Institute for adoption:

**WHEREAS,** since the enactment of the original income tax law in 1913 there have been twenty statutes making revisions thereof passed respectively in 1916, 1917 (two), 1918, 1921, 1924, 1926, 1928, 1932, 1934, 1935, 1936, 1937, 1938, 1939, 1940 (two), 1941, 1942, and 1943; and the members of the American Institute of Accountants believe that such annual revisions of the tax laws have resulted in the creation of a very complex tax structure which is highly detrimental to the prosperity of the country, and they believe that the permanent establishment of sound principles of taxation is urgently required to
give taxpayers the necessary confidence to face the future:

Be it resolved that the American Institute of Accountants urges that Congress establish as soon as possible a qualified non-partisan commission composed of members of Congress, representatives of the Treasury Department, independent lawyers, accountants, and economists to write a simple revenue law which will express a permanent and consistent policy of federal taxation.

In September it was discovered that a draft report of a congressional committee, related to renegotiation, expressed the opinion that government agencies should carefully audit the accounts of contractors subject to renegotiation, and implied that reliance on reports of independent certified public accountants was insufficient. Victor H. Stempf, vice president of the Institute, and chairman of the committee concerned with renegotiation, wrote to the chairman of the congressional committee concerned, and requested an opportunity to discuss the matter with him, pointing out that in view of the acute shortage of qualified accounting personnel a requirement such as that proposed might seriously impede the war effort. Following such discussion the implication that CPA's reports were untrustworthy was stricken out.

Testimony at a hearing before another congressional committee in September brought out a question by the chairman as to whether an accounting firm could be independent of its clients. The secretary of the Institute immediately addressed a letter to the chairman, explaining the tradition of independence to which the accounting profession adheres, and the safeguards which surround it. These acts have had the approval of the executive committee.

The committee on governmental accounting has proposed to sponsor a conference on federal-government accounting in New York, December 2nd and 3rd, and the executive committee has authorized such a conference, which may provide an opportunity for clarification of many difficult problems involved in the federal government's accounting and auditing requirements.

For the guidance of the incoming executive committee, it is suggested that discussion and an expression of opinion on these matters by the council would be helpful.

Recommendation for Amendment of Bankruptcy Act

Acting under authority of the council, and in accordance with the recommendation of the committee on bankruptcy, the executive committee adopted the following resolution at its meeting August 12th:

Whereas, The executive committee of the American Institute of Accountants is aware of the inequities resulting from the interpretations placed upon Section 270 of the Federal Bankruptcy Act by the administrative offices of the Treasury Department and whereas these inequities result in a discriminatory reduction in basis of taxpayers who have been reorganized under the Act, particularly when compared with the status of railroad corporations as provided in the Revenue Act of 1942, and whereas the executive committee deems it to be a matter of prime importance that such inequities be removed as soon as possible;

Now, therefore be it resolved, That the following proposed amendment to Section 270 of the Federal Bankruptcy Act, as amended, be approved in principle as setting forth the desire of the American Institute of Accountants to bring this matter in a practical way to the attention of the judiciary committees of the House and Senate:

That Section 270 of the Federal Bankruptcy Act should be repealed, and that the following be substituted therefor:

Section 270. The tax basis of property of a corporation reorganized under this Chapter, or reorganized under Section 77-B of the Federal Bankruptcy Act, as amended on June 7, 1934, shall not be decreased as a result of its reorganization; the basis shall be the same as it was in the hands of the company or its predecessor transferor prior to reorganization. The term "reorganization," as used in this paragraph, shall not be limited by the definition of such term in Section 112 (g) of the Internal Revenue Code. Such basis shall be utilized for invested-capital computations as well as for the computations affecting income.

This rule shall be applicable to property retained or acquired in a reorganization effected pursuant to an order of the court under the Federal Bankruptcy Act, as amended, entered after June 7, 1934.

Nothing in this section, however, shall change or limit the running of the statutes of limitations relating to the filing of amended tax returns or the filing of
A and be it further resolved, That the president be instructed to transmit a copy of this resolution, together with the proposed amendment, to the respective chairman of the House and Senate judiciary committees.

Copies have been sent to the chairman of the Congressional committees concerned, and to the National Bankruptcy Conference.

Coöperation with Treasury Department

At the request of the War Finance Division of the United States Treasury Department, the executive committee adopted the following resolution, urging the cooperation of accountants in the war-loan campaign:

WHEREAS, The United States Treasury has requested the cooperation of the American Institute of Accountants in the task of financing the war,

BE IT RESOLVED, That the executive committee of the American Institute of Accountants recognizes the importance of the Treasury's war loans in procuring funds for supplying the armed forces and in retarding inflation;

AND BE IT FURTHER RESOLVED, That the said executive committee believes that members of the accounting profession can render a patriotic service, as well as a service to their clients, by encouraging clients to purchase government securities, and by facilitating technical administration of payroll savings plans for the purchase of war bonds by employees, with particular regard to keeping up-to-date records, and prompt delivery of bonds.

The executive committee also authorized the secretary, at the suggestion of the Treasury Department, to request the presidents of state societies to designate individual members who might serve as consultants to victory-loan committees in the principal cities of the country. Editorials urging the profession to coöperate in the war-loan drives have appeared in The Journal of Accountancy.

World Calendar

At the request of the World Calendar Association, the executive committee authorized appointment of a special committee to study the proposals for calendar reform. The committee has submitted a report, recommending that the Institute sponsor the world calendar. This report is referred to the council of the Institute for action.

Aptitude Tests

The executive committee authorized appointment of a special committee to study the problem of aptitude tests for accountants. A report has been received, which is referred to the council for consideration.

Annual Awards

A subcommittee of the executive committee was requested to study the possibility of the creation of annual awards to be granted in the name of the Institute for outstanding contributions to the advancement of the accounting profession in various fields. Recommendations of a subcommittee are referred to the council for consideration.

Firm Names

In accordance with a resolution of the council at its meeting May 11th, the executive committee studied a request for advice from the committee on state legislation regarding legislation proposed in some states to prohibit the use of firm names by accounting firms containing the names of former partners no longer living, or no longer members of the partnership. The executive committee recommends that the council adopt the following resolution:

WHEREAS, The American Institute of Accountants committee on state legislation has requested the council of the Institute for an expression of opinion as to the Institute's policy toward legislative proposals which would prevent continuation of a firm name containing the names of former partners who have died or who have withdrawn from the partnership; and

WHEREAS, Said council of the American Institute of Accountants believes it desirable that the policy of the Institute on this question be recorded;

NOW THEREFORE BE IT RESOLVED, That in the opinion of the council of the American Institute of Accountants neither the public interest nor the interest of the accounting profession as a whole would be served by legislation preventing the use by public accounting firms of firm names or titles which contain the names of partners who have died or withdrawn from the firm; and be it further
RESOLVED, That the committee on state legislation be instructed to oppose legislative proposals of the type described in this resolution.

TRIAL BOARD

The executive committee received a report from the committee on professional ethics that the certified public accountant certificate of a member of the Institute had been revoked for cause by the state board of accountancy which had issued it. In accordance with Article VI, Section 1 of the by-laws, the executive committee sent to the member a formal notice of the complaint, and summons to appear in answer at the next meeting of the council sitting as a trial board in New York, October 18, 1943. This notice, which was sent by registered mail, was returned with an indication that the address of the member concerned was unknown. The matter will come before the council in the regular course.

YEARBOOK

The 1942 yearbook was published in April, 1943. The delay was due in part to printing difficulties, and in part to the increased volume of work necessary to prepare the list of names and addresses of the rapidly enlarging membership. In view of the current paper shortage, and the printing difficulties arising from manpower shortages, the executive committee recommends that no new yearbook be published in the fiscal year 1943-1944, but that the next edition of the yearbook be known as the 1943-1944 yearbook, to be published in the fall of 1944, and in the meantime reports of officers, council, and committees be sent to the members in pamphlet form, and a supplementary list of members and associates admitted since publication of the 1942 yearbook be published in pamphlet form in the spring of 1944.

1944 MEETING PLACE

In view of the strain on transportation facilities and hotel accommodations, due to war conditions, the executive committee recommends that selection of a meeting place for the 1944 annual meeting of the Institute, and authority over the nature and extent of that meeting, be referred to the incoming executive committee with power.

TECHNICAL ASSISTANT TO TAX COMMITTEE

In accordance with authorization of the council at its meeting May 10th, the executive committee has approved the employment of Miss Rebecca Newman as technical assistant to the committee on federal taxation for a trial period of six months, at a salary within the amount of the budget appropriation authorized by the council.

PENSION PLAN

At the meeting of council in May, 1943, a pension plan was adopted providing for the purchase of insurance and annuity contracts for the benefit of employees qualifying under specific standards who had not passed the age of fifty-five and one-half years. Three employees who had passed that age, and for whom it was therefore not practicable to purchase insurance or annuity contracts, were the subject of special resolutions adopted by the council, expressing the Institute's intention, but without binding obligation, to pay out of its current income to those three individuals sums to which they would have been entitled under the provisions of the pension plan itself if they had been eligible therefor.

Upon the official adoption of the plan following the council meeting, Frank A. Gale found upon examination and reference to official records that he had passed the age of fifty-five and one-half years before the effective date of the plan. He was, therefore, ineligible to participate. Upon learning the facts the executive committee, at its meeting of August 12th, recommended that council adopt a resolution expressing the Institute's intention to provide retirement income for him as it had done for the other three individuals whose age prevented participation in the plan. The following resolution is therefore proposed for adoption by the council:

WHEREAS, The form of agreement approved at the meeting of council May 10, 1943, embodying the American Institute Pension Plan does not provide for participation by employees over the age of fifty-five (55) years, six months, because no provision could be made for the inclusion of such employees except at excessive cost; and,
WHEREAS, Frank A. Gale was at the time of adoption of the Plan over the age of fifty-five (55) years, six months, and it is the sense of this resolution that provision be made so that Mr. Gale shall receive monthly income benefits throughout his lifetime equal to those which will be received by the participants in the Plan from their own contributions as employees of the Institute and from contributions by the Institute;

NOW, THEREFORE, BE IT RESOLVED:
That if the Pension Plan is still in effect when Frank A. Gale reaches the retirement age provided by the Plan, it is the intention of the American Institute of Accountants to make voluntary payments to Mr. Gale throughout the remainder of his life after his attaining the retirement age provided in the Plan in amounts equal to what he would have received from his own contributions as an employee of the Institute and from the contributions by the Institute if he had been permitted to participate in the Plan.

SECURITIES
The following security sale has been approved by the executive committee since the May, 1943, meeting of council:

GENERAL FUND

Sold
$15,000 United States Treasury 91-day bills, July 21, 1943

Respectfully submitted,

JOHN L. CAREY, Secretary
October 17, 1943

GEORGE S. OLIVE, Chairman

Reports of the Board of Examiners

MIDYEAR REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The board of examiners has held two meetings since the annual meeting in Chicago, and there have been several subcommittee meetings.

EXAMINATIONS
Today forty-six state and territorial accounting boards (not including the Virgin Islands board which has expressed its intention of using the Institute's standard examination) subscribe to the standard examination prepared by the Institute's board of examiners.

During the current fiscal year, the board of examiners has devoted much time and energy to the preparation of the examination; to preparations for planning future examinations, and to improvement in examination procedure. The board has consistently held that no effort should be spared to provide the cooperating state boards of accountancy with the type of CPA examination that will best serve their needs and maintain a high standard for the CPA certificate. At the joint meeting of the Association of Certified Public Accountant Examiners and the Institute's board of examiners, at Detroit in the fall of 1941, a number of objectives dealing with uniform examinations were adopted. In May, 1943, the two and one-half day examination, recommended at the Detroit meeting, is being inaugurated. The new examination consists of four subjects: Auditing, Commercial Law, Theory of Accounts, and Accounting Practice, with Accounting Practice, Parts I and II, graded as a unit as in the past. The subjects are to be given in the following order:

Wednesday, 1:30 P.M. to 6:00 P.M.—Accounting Practice, Part I
Thursday, 9:00 A.M. to 12:30 P.M.—Theory of Accounts
Thursday, 1:30 P.M. to 6:00 P.M.—Accounting Practice, Part II
Friday, 9:00 A.M. to 12:30 P.M.—Commercial Law
Friday, 1:30 P.M. to 6:00 P.M.—Auditing

The only substantial change is the introduction of a separate paper in Theory of Accounts; this subject had been combined with Accounting Practice in recent years. With the introduction of the additional half day, the afternoon sessions have been shortened to four and one-half hours, and the board of examiners has recommended to state boards of accountancy that no additional time be allowed beyond the four and one-half hour session. The length of the examination papers in Accounting Practice is being reduced commensurately. Papers for each examination subject have been developed through subcommittees of the board, so that intensive study might be given each paper. In accordance with the procedure adopted at earlier examinations, with a view to checking the time required to solve the problems and to eliminate any ambiguities which may exist, the examination problems and questions have been subjected to preliminary testing by solution under examination conditions by certified public accountants specially selected for the purpose.

To assist the members of accountancy boards who may travel many miles to the place where the examination is conducted and may wish to start grading immediately following the examination, the solutions are being sent to state boards earlier than in former years.

Due to the adoption of the two and one-half day examination schedule, the board seeks approval of council, of amendments to section (a), paragraphs four and six, under the title "Written Examinations," of the rules of the board of examiners, so that those paragraphs will read as follows:

"Examinations shall include questions in (1) Accounting Practice (Parts I and II), (2) Theory of Accounts, (3) Auditing, and (4) Commercial Law. The time required shall not exceed two and one-half days."

"Applicants who shall have passed the examination in two or more subjects (Accounting Practice, Parts I and II, is considered a single subject), at one sitting shall have the right on payment of the required fees, to be reexamined within a limited period in the subject or subjects in which they have failed to receive passing grades."

During the year the board of examiners has given serious consideration to the problem of long-range planning of examinations. A member of the board has defined "planned examinations" in a paper presented at the 1942 joint meeting of accountancy examiners, and reprinted in the April, 1943, issue of The Journal of Accountancy, as "those examinations which over a period of years will have covered all topics of the four subjects without overstepping the bounds of accountancy and trespassing upon the fields of law, engineering, or other professions." The board has retained a member of the Institute with public accounting and university teaching experience to assist the board in the initial development of a long-range program for future examinations. Because of the importance of the standard examination to the entire profession and the board's need for technical assistance in developing the examination program, it is requested that provision be made in the budget for the balance of this fiscal year of an additional appropriation of $1,000, plus a further appropriation of $3,000 for technical assistance for the year 1943-1944.

The following states, listed in the order their first CPA laws were enacted, prepare their own examination questions:

<table>
<thead>
<tr>
<th>State</th>
<th>Date of first law</th>
</tr>
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<tbody>
<tr>
<td>New York</td>
<td>1896</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1899</td>
</tr>
<tr>
<td>Maryland</td>
<td>1900</td>
</tr>
<tr>
<td>New Jersey</td>
<td>1904</td>
</tr>
<tr>
<td>Ohio</td>
<td>1908</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>1913</td>
</tr>
</tbody>
</table>

With a view to encouraging the state boards of accountancy in the six states shown above to adopt the standard examination, the board of examiners believes it desirable for a subcommittee of the board to meet with the state accountancy boards named above, to discuss possible arrangements for adoption of the standard examination. Because of the importance to the entire profession of a uniform examination throughout the whole country, and since this special project will involve travel, in addition to attendance at regular board meetings, the board requests that there be appropriated in the 1943-1944
budget, the sum of $750 to cover out-of-pocket expenses of board members in traveling to the respective states in carrying out this project.

Elijah Watt Sells Awards

The winners of the Elijah Watt Sells awards at the November, 1942, examination, are as follows:

First prize (gold medal)  
Stanley W. Smith, Texas

Second prize (silver medal)  
Joseph E. Rawlinson, Montana

Honorable mention  
Harold A. Brinner, Missouri  
C. E. Matsch, Iowa

Public Accounting Experience Requirements

On several occasions during the present year, the board of examiners has had for consideration the applications of certified public accountants who have not had a single day's public accounting experience. The committee on state legislation in its May, 1940, report to council, recommended the adoption, as a standard experience requirement for the CPA certificate, of a provision for "work as a public accountant or experience in the office of a practicing public accountant." The committee felt there was no substitute for public accounting experience, but later in the report expressed the opinion that this was an ideal standard and that the question was one for decision by the state boards of accountancy. The board of examiners is cognizant of the fact that in many states public accounting experience could be required only by a change in the public accounting law, and there are often many factors that must be weighed before action is taken to change state statutes. It is the opinion of the board of examiners that the CPA certificate should be a certificate issued to public accountants, as its name implies, who have had special technical accounting training and public experience, and not merely be considered as an academic degree. It is quite natural that as the CPA certificate continues to gain prestige accountants outside the public accounting profession will seek more strenuously to attain it. A study of the accountancy laws and rules of the boards, as published in the Commerce Clearing House, Accountancy Law Service, reveals that twenty-nine states do not require candidates for the certificate, either before or after the examination, to have public accounting experience. While it is possible for a certified public accountant who has not had public accounting experience to be admitted as an associate of the Institute, and the board does not wish to recommend a change in the existing admission requirements, it is the opinion of the board that every effort should be made by the Institute, in cooperation with state societies of certified public accountants and state boards of accountancy, to raise the public accounting experience standards for the CPA certificate at every opportune time.

Statistics

A member of the board, a subcommittee, or in some cases the entire board, passes upon each application for admission to the Institute. Although modifications in admission procedure, approved by council a year ago, have facilitated the admissions work of the board, the constantly increasing number of applications has given the board a strenuous program in this field of its work. Two hundred forty-four applications were pending at the beginning of the fiscal year. Since that time, the board has received 530 applications (including 23 applications for advancement), and has recommended the admission of 532. Two hundred twenty-seven were pending on May 1, 1943.

In November, 1942, 1,656 candidates wrote the standard examination, and the Institute's examining staff graded the papers of 609 candidates. The following percentages show the proportion of the candidates who received passing grades of 75 points or more: Auditing, 52.3 per cent; Commercial Law, 35.8 per cent; Accounting Theory and Practice, 22.8 per cent.

The board of examiners is working closely with the Association of Certified Public Accountant Examiners in an effort to provide the best possible examination service. To further this desirable cooperative effort, the board plans to arrange a luncheon during the 1943 annual meeting of the Institute in October, at which members of the Institute's board may discuss informally with state accountancy board
members, questions of mutual interest.

The board of examiners has inquired as to whether or not it might be entitled to apply for admission as a member of the Association of Certified Public Accountant Examiners.

With the view of better serving the accounting profession and the Institute, the board will value suggestions from the members of council and state society presidents gathered at this meeting as to ways in which its present activities may be expanded or modified.

Respectfully submitted,

HENRY E. MENDES, Chairman

May 1, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The board of examiners has held two regular meetings and subcommittees have held two meetings since the spring meeting of council, at which the board reported in detail on its work for the first eight months of the Institute's fiscal year.

Raymond E. North of New York was elected by council at its spring meeting to fill the vacancy on the board of examiners created by the resignation of J. Cyril McGarrigle.

The Institute's board will be host to the Association of Certified Public Accountant Examiners at a luncheon at the Waldorf-Astoria, October 18, 1943. Henry E. Mendes, chairman of the board of examiners, will present at the luncheon a paper on the Institute's contribution to development of uniform examinations. Papers will be presented at the open session of the Association in the afternoon by Norman E. Webster and John F. Forbes.

During the year the Institute's board has continued its close co-operation with the Association of Certified Public Accountant Examiners, which now includes in its membership every state accountancy board. The Institute's board is pleased to report that it was admitted to membership in the Association in September, 1943.

During the past fiscal year the board of examiners received 1,100 applications for admission to the Institute and since September 1, 1943, over 150 additional applications have been received. The admissions' work of the board is reflected in the following statistical record of the activities of the board of examiners for the fiscal year:

<table>
<thead>
<tr>
<th>Members</th>
<th>Associates</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>328</td>
<td>450</td>
<td>778</td>
</tr>
</tbody>
</table>

Twenty-nine associates were advanced to membership.

EXAMINATIONS

The board of examiners planned to set the date for future November examinations one week earlier than usual so as to permit grading and administration of the examinations to be completed in advance of the year-end tax rush. It was found, however, that Armistice Day, which comes within the proposed schedule, is a legal holiday in some states and public buildings in which the examination is usually conducted would not be available. The 1943 fall examination has therefore been scheduled for Wednesday through Friday, November 17-19. Because of the tendency for the tax season to extend further into the spring, the dates for the May examination have been set forward one week so that the examination will be held in the third week of May.

Beginning with the November, 1943, examination, the time allowed for the Auditing examination will be shortened to three and one-half hours. The Auditing
examination is scheduled for the last after-
noon of the examination period and the
board felt that an Auditing paper that
could be written in three and one-half
hours would be of adequate length to test
a candidate’s knowledge of that subject.

While it was expected that there would
be fewer candidates sitting for the stand-
ard CPA examination during wartime,
there has been no perceptible decline.
Change to the two and one-half day ex-
amination was accomplished with no diffi-
culty.

Following are the statistics showing the
number of candidates who passed in those
states and territories cooperating with the
Institute under its standard plan by which
papers are graded by the Institute’s ex-
aminers:

| November, 1942 | Auditing | 232 |
| May, 1943      |          | 283 |

Following are the states and territories
which used the uniform examination pre-
pared by the board:

**November, 1942**

Alabama, Alaska, Arizona, Arkansas,
California, Colorado, Connecticut, Dela-
ware, District of Columbia, Florida, Geor-
ga, Hawaii, Idaho, Illinois, Indiana,
Iowa, Kansas, Kentucky, Louisiana,
Maine, Massachusetts, Michigan, Minne-
sota, Mississippi, Missouri, Montana, Ne-
braska, Nevada, New Hampshire, North
Carolina, North Dakota, Oklahoma, Ore-
gon, Rhode Island, South Dakota, Ten-
nessee, Texas, Utah, Vermont, Virginia,
Washington, West Virginia, Wyoming
and the Treasury Department.

**May, 1943**

Alabama, Arizona, Arkansas, California,
Colorado, Connecticut, Delaware, District
of Columbia, Florida, Georgia, Hawaii,
Idaho, Illinois, Indiana, Iowa, Kansas,
Kentucky, Louisiana, Michigan, Minne-
sota, Mississippi, Missouri, Montana, Ne-
braska, New Hampshire, New Mexico,
North Carolina, Oklahoma, Oregon,
Puerto Rico, South Carolina, South Da-
kota, Tennessee, Texas, Utah, Washing-
ton, West Virginia, Wyoming.

Forty-seven states and territories and
the Treasury Department now cooperate
with each other by using the examinations
prepared by the board.

The winners of the Elijah Watt Sells
scholarship awards were as follows:

**November, 1942**

Stanley W. Smith, Texas, first prize.
Joseph E. Rawlinson, Montana, second
prize.
H. A. Brinner, Missouri, honorable men-
tion.
C. E. Matsch, Iowa, honorable mention.

**May, 1943**

Thaddeus H. Poeller, Illinois, first prize.
Leon Vern Tinkham, Illinois, second
prize.
Jack B. Sluiter, Michigan, honorable men-
tion.

Although pressure of war activities has
made development of a long-range pro-
gram for planned examinations move slow-
ly, definite progress has been made.

Respectfully submitted,

Henry E. Mendes, Chairman
Roy Andrae
Robert P. Briggs
Harold R. Caffyn
J. William Hope
Kenneth M. Montgomery
Raymond E. North
George E. Perrin
Norman E. Webster

October 15, 1943
REPORT OF THE COMMITTEE ON NOMINATIONS

ANNUAL REPORT

To the American Institute of Accountants:

Gentlemen: The committee on nominations hereby nominates the following for officers, auditors, and members of council of the American Institute of Accountants to be voted upon at the 1943 annual meeting at New York, New York, October 19, 1943:

For officers:

President—
Victor H. Stempf, New York

Vice-presidents—
George D. Bailey, Michigan
J. A. Phillips, Texas

Treasurer—
Samuel J. Broad, New York

For auditors:

Henry A. Horne, New York
Howard A. Withney, New York

For members of council:

(Three-year term):

Dixon Fagerberg, Arizona
James A. Councilor, District of Columbia
J. Leonard Penny, Illinois
Stanley G. H. Fitch, Massachusetts
Harold W. Scott, Michigan
Dick D. Quin, Mississippi
Edwin H. Wagner, Sr., Missouri
Walter L. Bradley, New York
Percival F. Brundage, New York
Joseph J. Klein, New York
Edward A. Kracke, New York
J. Arthur Marvin, New York
Julian A. Hawk, Ohio
Frank Wilbur Main, Pennsylvania
Frederick F. Alford, Texas

Arthur C. Upleger, Texas
(One-year term, to fill a vacancy):
Brooks Geoghegan, Georgia

Each of the nominees has expressed his willingness to serve if elected. These nominations have been approved unanimously by the members of the committee on nominations with the exception that Mr. Hawk cast his vote for a nominee other than himself to be recommended from the State of Ohio.

In many of the states from which council members were to be nominated this year, a disappointingly small number of the members of the Institute responded to the committee's request for an expression of opinion as to suitable nominees. This has led the members of the committee to consider the possibility of recommending some change in the present machinery, which requires the committee to present questionnaires to all members in states to be represented on the council before selecting nominees. A special meeting of the committee has been called for October 17th to consider this matter further, as a result of which some recommendations may be submitted to the council.

Respectfully submitted,

Clifton H. Morris, Texas, Chairman
Earl A. Waldo, Minnesota
Francis P. Farquhar, California
P. W. R. Glover, New York
Julian A. Hawk, Ohio
Alfred D. Peabody, Colorado
John H. Zebley, Jr., Pennsylvania

August 18, 1943

Supplementary Report of the Committee on Nominations

To the Council of the American Institute of Accountants:

Gentlemen: The committee on nominations met at the Waldorf-Astoria, October 17, 1943.

Present:

Clifton H. Morris, Texas, Chairman

Earl A. Waldo, Minnesota
P. W. R. Glover, New York
Julian A. Hawk, Ohio
Alfred D. Peabody, Colorado
John H. Zebley, Jr., Pennsylvania

The committee discussed the possibility, referred to in its report to the membership published as part of the notice of the annual meeting, of recommending a change
in the present procedure through which members are nominated for election to the council of the Institute. After discussion, it was resolved unanimously that no recommendation for change in the present method of nominating council members should be made at this time, but by educational methods an effort should be made to improve the effectiveness of the present machinery.

It was further resolved unanimously that the committee authorize the chairman to appear before the forthcoming meeting of the Advisory Council of State Society Presidents to inform them of the present problems of the committee on nominations, largely created by the lack of response by members to questionnaires seeking their opinions as to suitable nominees for the council, and requesting the cooperation of state society presidents in this matter. The committee also recommends that the succeeding committee on nominations take such further steps as may be feasible to inform the membership of the problems with which all nominating committees are confronted, and seek their assistance in the most effective solution.

Respectfully submitted,
CLIFTON H. MORRIS, Chairman
October 17, 1943

Reports of the Committee on Professional Ethics

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The New York members of the committee on professional ethics have held several meetings with members of the Institute to discuss questions arising from complaints referred to the committee. The only meeting of the full committee, since its election last October, was held during the present session of council.

Rule of Professional Conduct

Last year the committee on professional ethics indicated it favored a change in rule No. 10 of the Rules of Professional Conduct so as to prohibit all advertising of any kind, including publication of so-called cards. The committee sought the advice of the members of the Advisory Council of State Society Presidents in this matter. At its meeting in Chicago last September the Advisory Council recommended to council of the Institute that a rule of conduct be adopted by the Institute prohibiting all advertising in any form by members and associates of the Institute, with the proviso that this prohibition would not apply to announcements of changes of address, changes in partnership or in key personnel, and similar announcements, and that the rule should not become effective until one year after its adoption. This recommendation was referred by the executive committee to your committee on professional ethics, with a request that we report our recommendation with regard to this proposal to the spring meeting of council, but suggesting that the limitation on use of cards by Institute members be extended only so far as state societies may adopt similar rules. The committee on professional ethics has drafted the following proposal for the consideration of council, which if approved will be submitted to the membership by mail, and will be voted upon at the annual meeting in October, 1943:

Amend rule No. 10 as follows:

"A member or an associate shall not advertise his professional attainments or services. The publication of what is technically known as a card is restricted to an announcement of the name, title (member of American Institute of Accountants, CPA, or other professional affiliation or designation), class of service, and address of the person or firm, issued in connection with the announcement of change of address or personnel of firm, and shall not exceed two columns in width and three inches in depth if appearing in a newspaper, and not exceeding one-quarter of a page if appearing in a magazine, directory, or similar publication."

Analysis of Cases

38-14. Information has now been made available to the committee in its
study of this case, which has been reported at numerous meetings of council, which the committee believes will permit it to reach a conclusion in the matter in the immediate future. The case arose from a court decision involving alleged conspiracy to defraud.

40-5. This case, which involved an investigation by public authorities, was still awaiting the result of such investigation when the member against whom the complaint was lodged left the practice of public accounting, and has since resigned from membership in the Institute. The committee has therefore closed the file in the case.

41-9. A report of this case has been made to the council at two previous meetings. It concerned a member who was indicted by a federal grand jury. The committee has now been informed that the federal authorities, without any initiative or without motion on the part of the member involved, have dropped and nolle prossed all charges against the member. The committee has therefore closed the file in the case.

42-2. As reported to council at two previous meetings, the committee is still awaiting information which may be available as a result of civil proceedings against the member concerned, before taking formal action in this matter, which involves alleged violation of an oral contract.

42-3. This case concerns a member who is alleged to have acted as a municipal official and at the same time maintained a partnership in a firm of independent professional public accountants, while other partners of this firm, acting through a separate partnership, were engaged to make the annual audit for the city. The committee received an explanation from a member of the firm involved, has reviewed the record, and has now received formal notice from the member concerned that negotiations have been completed which have removed the cause for criticism. The committee thereupon closed the case.

42-5. The committee has reported at two previous meetings of the council on this case, which involves a member who has been indicted by a federal grand jury. The committee is still deferring formal action in the matter until the court record may be available.

42-11. Allegations by a nonmember of the Institute were submitted to the committee against an accounting firm, of which partners are members of the Institute, to the effect that said accounting firm had certified misleading financial statements. The committee received an explanation from the firm involved and is now studying and analyzing the published annual reports of the corporation concerned before reaching a final decision in the matter.

42-14. This case, which was referred to the committee by the Securities and Exchange Commission, is being reported upon separately by the committee in a supplementary report.

43-1. This case arose from a complaint that a member of the Institute approached the employee of another member of the Institute, and employed him without first requesting said member for a release of the staff member. Upon an explanation from the member against whom the complaint was made that the staff member applied for the position in answer to a public advertisement, and since rule No. 8 does not prohibit a member from engaging the services of one who is employed by another member if the employee responds to public advertisement, the committee has closed the file in the case.

43-2. A card was submitted to the committee, containing a schedule of Victory tax deductions and an explanation, bearing the name of a firm of accountants, of which partners are members of the Institute. The committee requested an explanation from the members involved, and upon assurance from the members that they would discontinue the issuance of material of this kind, the file in the case was closed.

43-3. The attention of the committee was drawn to a civil case in which a firm of accountants, of which a partner is a member of the Institute, were sued for alleged negligence, and the court handed down a verdict unfavorable to the accountants. The committee has requested an explanation from the member involved, and is awaiting a response before pursuing its investigation in the matter.

43-4. A complaint was made that a member of the Institute had issued a circular letter stating that his firm had made plans to send experienced tax men to a limited number of factories to prepare income-tax returns for war workers, and quoting nominal fees for this service. The committee communicated with the member concerned, and upon his assurance that such letters would not be issued in the future, the case was closed.

43-5. A complaint was made by a nonmember of the Institute that a firm of which partners are members of the Institute had entered into competitive bidding for a professional engagement. The committee was informed that the state society of which the partners of the said
firm are also members had a similar complaint under consideration, and the committee of the Institute is delaying action in the matter until the results of the state society committee's consideration may be known.

SUMMARY OF INQUIRIES AND RESPONSES

Q. I have been offered an engagement to prepare a booklet on procedure in preparation of personal income-tax returns. My name would appear on the booklet as author, with title of CPA and possibly as Member, American Institute of Accountants, but neither the booklet nor any advertising in connection therewith would show my street or city address. Is there anything in connection therewith which would meet with the disapproval of the committee on professional ethics?

A. There is no violation of rules of professional conduct in the preparation and sale of a booklet by a member of the Institute, but attention is directed to the possibility that the Committee on Practice of the Treasury Department would regard such an activity as a violation of its rules.

Q. May I admit as partners two men who have worked for me, one of whom is a CPA, but the other not certified? There is a question in my mind as to the application of rule No. 4, and I would like to know if there has been a decision as to what the phrase "which is incompatible or inconsistent therewith" covers?

A. There seems to be nothing in your plan which would be in conflict with the rules of professional conduct. There is no intent underlying any of these rules to prevent a partnership between a member of the Institute and one who is not a member, or between a certified public accountant and one who is not a CPA. Rule 4 regarding an occupation incompatible or inconsistent with that of a public accountant was intended to cover activities in which it might be held that a public accountant could not appropriately engage simultaneously with the conduct of professional accounting practice. For example, it might be held that a public accountant should not at the same time be an investment dealer, or securities salesman.

Q. I have developed a procedure which would be of value to contractors performing certain services for the armed services and it is my desire to make my services and the services of my staff available on a fee basis to any contractor engaged in the performance of the types of contracts with which I am experienced. I would like your opinion with respect to announcing to interested members of the public my intention to make my services and services of my staff available for this specialized work. Should a dignified card containing an ordinary size printed announcement with no words of solicitation be proper, would following up inquiries obtained thereby for purposes of individually negotiated arrangements violate the rules of professional conduct? Of course no engagement would be entered upon where an independent public accountant had already been engaged by a particular contractor and his services were satisfactory.

A. It is believed that rule No. 10 is intended to limit rather strictly public advertisements by members or associates of the Institute to very simple cards announcing changes of address or personnel or similar simple statements. A description of the special type of work you have undertaken would be considered, it is believed, an advertisement of the professional services of the member or associate concerned, which is specifically prohibited by the rule. A circular letter containing the same information would, it is believed, also be regarded as not permissible under the rule.

Q. I am enclosing a memorandum which I am sending to my clients in connection with the present confusion regarding payment of income-tax returns for 1942. Does this come within the scope of ethical practice?

A. So long as distribution of this form letter is restricted to your clients it would not appear to conflict with the Institute's rules of professional conduct.

Q. Enclosed is a booklet summarizing the Revenue Act of 1942, which booklet bears our firm name. Would it be considered unethical to mail these summaries to business houses not at present our clients, and to distribute them to members of luncheon clubs to which we belong?

A. The committee on professional ethics has agreed there is nothing in the rules of professional conduct to prevent distribution of bulletins, such as you enclosed, by an accountant to clients
whom he is currently serving. However, the committee feels that if a booklet of this type is circulated to others than clients now being served by the firm, it would be a violation of rule No. 10.

Q. I am operating as a sole proprietor and have several employees, none of whom is a certified public accountant. If I enter the armed forces, how should my certificates, reports, and letters be signed? Should the man I leave in charge have a power of attorney from me?

A. The committee finds some ground to question the suggestion that practice be carried on in the name of the proprietor, who is entering the armed forces, by an assistant who is not a certified public accountant or a member of the Institute. Rules No. 2 and No. 6 are the ones which seem to relate. The committee feels that there would be some ground for criticism if reports were signed in the name of the proprietor or presented on his stationery as a certified public accountant when neither he nor any other certified public accountant was in fact supervising the work. The committee suggests that it might be possible for the proprietor to make an arrangement with another firm of certified public accountants, or an individual practicing certified public accountant, to safeguard his practice while in the service, utilizing the present assistants as employees. It is possible that you might form a partnership with the assistant you intend to leave in charge to continue the practice for the duration of the war. This, of course, would necessitate the elimination of the title "Certified Public Accountant" in conjunction with the firm name.

Q. It is proposed that the writer, as an employee of a co-operative (a nonprofit organization rendering various types of service to its members, all of whom are stockholders) undertake to audit the records of its members and certify statements of such members which will be used occasionally for credit purposes. It may be proposed that the writer in the same status audit the books of his employer, the co-operative, and certify its statement which will almost certainly be used only for internal purposes. May I have your opinion?

A. It is the general opinion that if as a professional practicing certified public accountant you were engaged on a fee basis to audit the accounts of the co-operative and the accounts of its members, you might properly certify the financial statements. However, as an employee of the co-operative on a salary basis, the committee believes it would be improper and inconsistent for you to do so, since you could not be considered an independent public accountant. There would be no objection to your auditing the accounts of the members in the manner in which internal auditors of co-operatives perform such functions and you could make reports based upon that examination, but you should not certify them as an independent professional practitioner and should make it clear in your reports that you are acting as an officer or employee of the co-operative.

Q. Three accountants form a partnership, one of whom is certified and a member of the Institute, the other two not certified. May the certified member sign and certify financial statements issued by the firm and on the firm stationery? If such is permitted, to what extent must he participate in or supervise the engagement to which the certified statement applies?

A. There is nothing in the rules of professional conduct to prevent a certified public accountant and a member of the Institute from forming a partnership with one who is not a member or is not a CPA. Also, there is nothing in the rules to prevent a member from signing or certifying financial statements prepared by a partner or an employee, though not under his own supervision.

Q. My son entered my office with the original understanding of a partnership. Before I could change the name of the business, indicating a partnership, he entered the Army. In the circumstances is it in order for me to continue to practice under an individual name and continue my son as a partner, sharing the income?

A. There is nothing in the rules of professional conduct to prevent the arrangement you have with your son. The Treasury Department rules restrict the use of names denoting a partnership when in fact a sole proprietorship exists. Since your situation appears quite the reverse, there seems no reason why anyone should object.

Q. I had charts printed on the optional method of withholding the Victory tax,
which bear my name on the bottom. I had intended to use these only for my clients but others have made requests for them. If I give these charts out to those who request them, would it be considered advertising, since they bear my name?

A. It is the opinion of the committee that the rules of professional conduct would not prohibit your giving persons other than your clients copies of the chart referred to if such persons requested copies on their own initiative. It would not be proper to advertise the existence of the chart and thus invite requests. If you give out a relatively few copies to personal acquaintances who may request them, and they are not clients of other public accountants, there is little likelihood of any objection, but if a large number are distributed to persons other than your clients in any general manner, you might be charged with violation of the rules.

Q. A client, appreciating the services of one of our junior staff men, wishes to give him a Christmas bonus of $500 as a gift from him personally. Would there be anything unethical or inappropriate for our client to pay our employee this bonus?

A. While no Institute by-law or rule of professional conduct covers the question, it is believed it should be considered to what extent such a gift might affect the independence of the employee in respect of such a client. Also, whether such a substantial gift would not put you under some feeling of obligation to the client. Minor gifts to employees are fairly common and not considered objectionable but the amount you mention seems rather substantial. Perhaps an increase in the fee from the client and a promotion with a raise for the staff assistant would be a better course.

Q. With reference to recently amended rule No. 13, please advise the manner in which disclosure is to be made. Specifically, would a list of stockholders, showing names and amount of stock owned included as part of the auditor’s report, constitute compliance with the rule?

A. The committee does not believe a list of stockholders’ names, including name of the auditor, would constitute compliance; but suggests a statement in the accountant’s report or certificate, such as the following:

“In accordance with the requirements of the American Institute of Accountants, the undersigned states that he (members of his family, members of his firm, etc.) has a substantial financial interest in the Company.”

Q. A CPA is leaving the Franchise Tax Commission and joining our staff. Is there any objection to his sending his personal friends a card announcing the change?

A. The committee finds no objection so long as the announcement card is restricted to his personal friends.

Q. A CPA who is also an enrolled agent of the Treasury Department, discovers in auditing a client’s books, a corporation consisting of one stockholder, that through the intentional efforts of such sole stockholder, the books do not reflect the entire income of the company, and did not during the previous year which records said accountant also audited and prepared and filed the corporate tax returns. After calling the client’s attention to the matter of the tax evasion, if the client agrees, is it advisable for the accountant to prepare amended returns for the previous year and see that the books are corrected for the current year? If upon presenting the matter to the client he is unwilling to take steps to correct same, should the accountant be required to report the matter to the Treasury Department notwithstanding the confidential relationship existing between the accountant and the client?

A. The committee believes that the accountant should write to his client bringing all relevant facts to his attention, even if he has previously done so orally, and urge that voluntary amended returns be filed. If the client refuses to rectify the situation the accountant should withdraw from the engagement and in his letter of withdrawal should give the reasons for his action. Under the Treasury Department rules, an enrolled agent has performed his duty when he has notified the taxpayer that a violation has been committed. Under the rules of ethics of the Institute a member is not required to advise the Treasury Department. It is believed that one of the most important issues involved is that of legal responsibility, and it is advised that the accountant consult his attorney.

Respectfully submitted,

Joseph J. Klein, Chairman

May 9, 1943
ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on professional ethics has held one meeting of the full committee since its report to council at the May meeting. The New York members of the committee have met several times.

ANALYSIS OF CASES

38-14. This case, arising from a court decision involving alleged conspiracy to defraud, has been reported to the council at several meetings. Information recently made available to the committee has had consideration, and as a result thereof answers to further questions are now awaited before final disposition may be made of the case.

42-2. There have been no new developments in this case since the committee reported to the council at the May meeting. Civil proceedings have been instituted, and the committee is awaiting the official record of the case before formally considering the matter.

42-5. The committee has reported at three previous meetings of the council on this case, which involves a member who has been indicted by a federal grand jury. The committee is still deferring formal action in the matter until the court record may become available.

42-11. Allegations by a non-member of the Institute were submitted to the committee against an accounting firm, of which partners are members of the Institute, to the effect that said accounting firm had certified misleading financial statements. The committee received an explanation from the firm involved, and has initiated an exhaustive study of the published annual reports of the corporation concerned before reaching a final decision in the matter.

42-14. This case, which was referred to the committee by the Securities and Exchange Commission, was reported upon separately at the May meeting of council in a supplementary report. Since that time a subcommittee of the ethics committee has had several meetings with members of the Institute concerned, and as a result of these meetings information has been developed, which is now being studied. It is the hope of the committee that it will be able to bring the matter to an early conclusion.

43-3. The attention of the committee was drawn to a civil case in which a firm of accountants, of which a partner is a member of the Institute, was sued for alleged negligence. The committee received an explanation from the partner who is a member of the Institute, and is now studying and analyzing the reply before reaching a final decision in the matter.

43-5. Complaint was made simultaneously to the Institute and to a state society, that a firm of which partners are members of the Institute had entered into competitive bidding for a professional engagement. An oral report was received from the chairman of the committee on professional ethics of the state society to the effect that a denial of the charges had been received from the members concerned, and upon a consideration of all the facts the complaint was dismissed and the case deemed closed. After discussion, this committee decided to take similar action.

43-6. The committee received a report that the certified public accountant certificate of a member of the Institute had been revoked by a state board of accountancy for cause. The case has been referred to the council under the provisions of Article V, section 4(g) of the by-laws, providing that a member renders himself liable to expulsion or suspension if his certified public accountant certificate shall have been revoked and such revocation remains in effect.

SUMMARY OF INQUIRIES AND RESPONSES

Q. Would a blind ad, reciting that I am available evenings and week-ends to keep books, prepare statements, etc., conform to the ethical rules of the Institute?

A. An advertisement of this nature would appear to violate rule No. 10 of the Institute's rules of professional conduct. Such an advertisement might also be held to violate rule No. 7. Finally, such an advertisement, which would be considered bad professional taste, might be held to come under section 4(d) of Article V of the Institute's by-laws.

Q. A certified public accountant with whom I have been associated for seven years is now serving in the Army over-
A. The committee on professional ethics has taken the position that the use of "I" and "we," when used by a single practitioner in expressing his professional opinion, is of little significance. An editorial in the May, 1943, issue of The Journal of Accountancy deals with this question. However, in signing a certificate or report the proper form would be to sign your own name and not the joint names per your own.

Q. I am an officer of a fraternal organization, and mailed to members of this organization in the city of my residence some literature, using my accounting firm's letterhead instead of that of the organization. Complaint has been filed with the state board of accountancy, claiming that I have violated the code of ethics relative to advertising. Our code is almost word for word the same as that of the American Institute. Please advise me whether or not I have violated the rules of conduct of the Institute in so doing?

A. Mailing of material which you have submitted does not appear to be directly prohibited by any of the Institute's rules of conduct. Complaint was probably made on the ground that such distribution as you made violates the rules against indirect solicitation prohibited by Institute rule No. 7. It is also possible that a letterhead such as the one employed by you, when sent to non-clients, might be regarded as advertising of professional attainments or services, which is prohibited by our rule No. 10. We refer to description on your letterhead of your practice enrollments and the type of services rendered by your firm. It is possible that the complaint was made against you to your state board on the ground that distribution of material to members of the fraternal organization who may be clients of other accountants violated the spirit of the rule against direct or indirect solicitation. It is highly desirable to avoid even the appearance of "bad taste."

Q. We publish a law directory, which is distributed to lawyers, accountants, insurance companies, and banks throughout the United States, and this year have decided to create a section for accountants. We would like to have your suggestion as to what form of card would be considered ethical by your association?

A. Publication of a card in your directory by members of the Institute would not be contrary to the Institute's rules of professional conduct as they now stand, but a change in the rules was considered at the last meeting of the council of this Institute, which will be considered by the membership at the annual meeting in October. If passed, the revised rule would outlaw such directory advertising.

Q. I have been practicing accounting with another certified public accountant as a partnership. We are considering an arrangement whereby a public accountant, who has been in practice for the past ten years, will enter into an agreement with us that the gross earnings of the partnership be pooled, and the firm and the public accountant share the expenses and the division of net proceeds in a predetermined ratio. Would this plan be ethical under the rules of professional conduct of the Institute?

A. There are obvious objections to the contemplated plan: first, that the arrangement provides for sharing professional fees with a non-certified public accountant who does not directly contribute to the earning of such fees and who does not generally and regularly serve your clients; and second, it is possible that the non-certified public accountant, unhampered by rules of professional conduct, could freely indulge in activities which would subject him to censure if he were a member of the Institute and, of course, that the certified public accountant would share in the proceeds of the activities described.

Q. Has there been any relaxation of the rules of professional conduct of the Institute with respect to sending out literature, chiefly pertaining to taxes, pre-
pared by someone other than the accountant whose name is imprinted on the outside of the pamphlet? It has become very common practice for material of this kind to be distributed by the larger firms, and some of the local firms are now doing so.

A. There has been no relaxation of the Institute's rules of professional conduct in this area because these rules never covered distribution of information to clients. The distribution of this material to others than clients, if it bore the name of the accountant in any connection, might be grounds for complaint of violation of the rules. Committees on professional ethics have felt some concern about the use of so-called "boiler plate" consisting of pamphlets on taxation, or other subjects, published commercially, but distributed under the name of an accountant. Members of these committees have felt that such pamphlets might mislead recipients into the belief that the material had been prepared by the accountant when in fact it had been prepared by a publisher and sold to the accountant.

Q. I am planning to admit as partners in my public accounting practice two men who have been working with me for a long time, one of whom is a certified public accountant, and one who is not. The question comes to my mind as to how the rules of professional conduct should be applied, and specifically rule No. 4. Would the fact that partners are held personally and jointly responsible by the rules affect in any way the disposition of this rule?

A. There is nothing in your plan to admit as partners of your firm the two men whom you describe, which would be in conflict with the rules of professional conduct of the Institute. There is no intent underlying any of these rules to prevent partnership between a member of the Institute and one who is not a member, or between a certified public accountant and one who is not a CPA. Rule No. 1 is clear. No firm may use the designation "Members American Institute of Accountants" unless all the partners are members or associates of the Institute. Similarly, many if not most of the state and territorial CPA laws prohibit the use of the designation "Certified Public Accountants" in conjunction with the firm name unless all the partners of the firm do hold CPA certificates. Rule No. 4 was intended to cover activities in which it might be held that a public accountant could not appropriately engage simultaneously with the conduct of professional accounting practice. For example, it might be held that a public accountant should not at the same time be an investment dealer, or security salesman.

Q. My attention has been called to a classified advertisement appearing on page A-28 of the August, 1941, issue of The Journal of Accountancy, "Unusual Openings for Staff Men." In my opinion this is contrary to rule No. 8 of the rules of professional conduct. May I have the views of the committee?

A. The members of the committee are unanimous in the belief that the rule does not prohibit public advertisement for staff assistants. If such an advertisement were worded in a particularly objectionable way perhaps it could be criticized on other grounds. In the opinion of the committee it would be an unreasonable extension of rule No. 8 to interpret it as applicable to such advertising, and it would be unwise to interpret the rule in such a manner that employees might feel they were unduly restricted in efforts to seek employment.

Q. I am engaged in a highly specialized work in connection with war contracts held by a domestic air carrier, who is subject to supervision by the Civil Aeronautics Board. I have developed a procedure for contractors performing similar services for the armed forces, and since it is becoming more and more difficult for contractors to obtain highly trained personnel, it is my desire to make my services and those of my staff available on a fee basis. I would like to have the opinion of the committee on professional ethics with respect to announcing to the public my intention to make my services available for this specialized work. Would a dignified card containing no words of solicitation be proper? Would following up inquiries obtained thereby for purposes of individually negotiated arrangements violate the rules of professional conduct of the Institute?

A. Rule No. 10 of the Institute's rules of professional conduct is intended to limit, rather strictly, public advertisements by members of the Institute to
very simple cards announcing changes of address or personnel, or similar simple statements. A description of the special type of work such as that which you have undertaken would be considered an advertisement of the professional services of the member concerned, which is specifically prohibited by the rule. A circular letter containing the same information would also be regarded as not permissible under the rule. Many accountants might feel that they were competent to perform similar services and there would almost certainly be objection to advertisement on your part. The committee agrees that advertising of your plan would be a violation of the Institute's rules.

Respectfully submitted,

JOSEPH J. KLEIN, Chairman
GEORGE COCHRANE
FREDERICK H. HURDMAN
ROSS T. WARNER
EDWARD B. WILCOX

October 17, 1943

Report of the Committee on Budget and Finance

ANNUAL REPORT

To the Council of the

American Institute of Accountants:

Gentlemen: The committee on budget and finance presents herewith budgets for the fiscal year 1943-1944, covering estimated revenue and expenditures of the American Institute of Accountants and its departments and subsidiary corporations. The committee recommends that these budgets be adopted.

A condensed consolidated budget has been distributed to members of council in mimeographed form for their convenience in reviewing proposed appropriations.

Total revenue is estimated at $256,485, about $6,000 in excess of actual revenue last year. The increase is expected principally in dues and non-member subscriptions to The Journal of Accountancy. These estimates are believed to be conservative.

Expenditures to be appropriated total $256,010, about $23,000 more than last year. The principal increase is in payroll, and is due to recommended increases in salaries of present staff (explained in detail in a confidential supplementary report to council), to the employment of replacements to fill vacancies which had occurred last year and could not be filled until recently, and to the employment of new assistants authorized by the council.

Other major increases in estimated expenditures arise in relation to the pension fund, which is tied to the payroll, in traveling and administrative expenses, and in producing publications for the information of the membership.

A substantial decrease in expenditure is expected if the executive committee's recommendation to omit publication of a yearbook in this fiscal year is adopted.

The budget shows that the general fund will have to meet estimated deficits of $7,675 in operation of the library and $4,335 in the Publishing Company.

The contingency fund has grown to $63,251. The auditors have pointed out that the original resolution of council creating this fund included a limit of $25,000, but subsequently the council has adopted resolutions crediting to this fund, the excess of revenue over expenditures resulting from annual operations, with the result that the original limit has been far exceeded. It is recommended that council now adopt the following resolution:

Resolved, That henceforth any excess of revenue over expenditures in a fiscal year be credited to the contingency fund, and cash or securities in the amount indicated be added to the fund, until further actions by the council.

It is also recommended in view of the expected lack of current funds to provide for contingencies in the coming year, that the council appropriate $5,000 from the contingency fund to be expended only on authority of the executive committee for extraordinary expenses for which no provision has been made in the budget.

Respectfully submitted,

RODNEY F. STARKEY, Chairman
SAMUEL J. BROAD
GEORGE P. ELLIS

October 15, 1943
### 1942-1943 Reports of Officers, Council and Committees

**AMERICAN INSTITUTE OF ACCOUNTANTS**
**AMERICAN INSTITUTE PUBLISHING CO., INC.**

**Consolidated and Summarized Budget—1943-1944**

<table>
<thead>
<tr>
<th>Revenue, Estimated:</th>
<th>Budget 1943-1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dues</td>
<td>$150,000</td>
</tr>
<tr>
<td>Income from <em>The Journal of Accountancy</em></td>
<td>68,000</td>
</tr>
<tr>
<td>Income from sales of books.</td>
<td>8,500</td>
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<tr>
<td>From investments.</td>
<td>11,435</td>
</tr>
<tr>
<td>Fees from state boards.</td>
<td>10,000</td>
</tr>
<tr>
<td>Application fees</td>
<td>1,500</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>7,050</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>$256,485</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures To Be Appropriated:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and fees for professional services:</td>
<td></td>
</tr>
<tr>
<td>Secretary and managing editor</td>
<td>$14,000</td>
</tr>
<tr>
<td>General Institute administration</td>
<td>19,200</td>
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<tr>
<td>Editorial Advertising and promotion</td>
<td>14,640</td>
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<tr>
<td>Research staff</td>
<td>17,140</td>
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<tr>
<td>Library staff</td>
<td>9,300</td>
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<tr>
<td>Board of examiners</td>
<td>16,070</td>
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<tr>
<td>Accounting, purchasing and office services</td>
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<td><strong>Total</strong></td>
<td><strong>$121,550</strong></td>
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<tr>
<td>Honoraria</td>
<td>$5,000</td>
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<tr>
<td>American Institute pension fund</td>
<td>3,810</td>
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<td>Social security taxes</td>
<td>3,965</td>
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<tr>
<td>Legal fees and expenses</td>
<td>6,300</td>
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<table>
<thead>
<tr>
<th>Administrative expenses:</th>
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<tbody>
<tr>
<td>Stationery and printing</td>
<td>$2,585</td>
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<td>Postage and express</td>
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<td>Telephone and telegraph</td>
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<tr>
<td>Rent</td>
<td>16,500</td>
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<tr>
<td>Electricity</td>
<td>2,000</td>
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<tr>
<td>Insurance and taxes</td>
<td>1,095</td>
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<tr>
<td>Supplies and equipment</td>
<td>3,150</td>
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<tr>
<td>Building expenses</td>
<td>1,320</td>
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<td><strong>Total</strong></td>
<td><strong>$40,650</strong></td>
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<table>
<thead>
<tr>
<th>Traveling expenses:</th>
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<tbody>
<tr>
<td>President</td>
<td>$1,000</td>
</tr>
<tr>
<td>Council</td>
<td>3,000</td>
</tr>
<tr>
<td>Staff</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,000</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Publications:</th>
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<tbody>
<tr>
<td>Direct cost of <em>The Journal of Accountancy</em></td>
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<tr>
<td>Advertising and promotion</td>
<td>2,000</td>
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<td>Direct cost of books</td>
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<tr>
<td>Special reports to members</td>
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<td><strong>Total</strong></td>
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<tr>
<td>Library books and magazines</td>
<td>3,300</td>
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<tr>
<td>Legislative and newspaper clipping services</td>
<td>625</td>
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<tr>
<td>Board of examiners' expenses</td>
<td>3,350</td>
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<tr>
<td>Annual meeting expenses</td>
<td>2,000</td>
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<tr>
<td>General expenses</td>
<td>6,040</td>
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<td><strong>Total expenditures</strong></td>
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<td>Contingency fund</td>
<td>475</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$256,485</strong></td>
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Reports of Committees

**General Fund**

**Revenue, Estimated:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dues</td>
<td>$150,000</td>
</tr>
<tr>
<td>From investments</td>
<td>300</td>
</tr>
<tr>
<td>Fees from state boards</td>
<td>10,000</td>
</tr>
<tr>
<td>Application fees</td>
<td>1,500</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>7,000</td>
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<tr>
<td><strong>Total income</strong></td>
<td><strong>$168,800</strong></td>
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**Expenditures To Be Appropriated:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and fees for professional services:</td>
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</tr>
<tr>
<td>Secretary</td>
<td>$7,500</td>
</tr>
<tr>
<td>General Institute administration</td>
<td>19,200</td>
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<tr>
<td>Research staff</td>
<td>17,140</td>
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<tr>
<td>Board of examiners</td>
<td>16,070</td>
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<tr>
<td>Accounting, purchasing and office services</td>
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<td><strong>Total</strong></td>
<td><strong>$76,750</strong></td>
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<td>Honoraria</td>
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<td>American Institute pension fund</td>
<td>2,510</td>
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<tr>
<td>Social security taxes</td>
<td>2,160</td>
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<tr>
<td>Legal fees and expenses</td>
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<td>Administrative expenses</td>
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<td>Stationery and printing</td>
<td>2,125</td>
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<td>Postage and express</td>
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<td>Telephone and telegraph</td>
<td>2,500</td>
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<tr>
<td>Rent</td>
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<tr>
<td>Electricity</td>
<td>2,000</td>
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<tr>
<td>Insurance and taxes</td>
<td>500</td>
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<tr>
<td>Supplies and equipment</td>
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<td>Building expenses</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$20,720</strong></td>
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<td>Traveling expenses:</td>
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<td>President</td>
<td>$1,000</td>
</tr>
<tr>
<td>Council</td>
<td>3,000</td>
</tr>
<tr>
<td>Staff</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,000</strong></td>
</tr>
<tr>
<td>Publications:</td>
<td></td>
</tr>
<tr>
<td>Special reports to members</td>
<td>$6,500</td>
</tr>
<tr>
<td>Yearbook</td>
<td>4,500</td>
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<tr>
<td><em>The Journal of Accountancy</em> subscription for members</td>
<td>19,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,500</strong></td>
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<tr>
<td>Legislative and newsclipping services</td>
<td>$625</td>
</tr>
<tr>
<td>Board of examiners' expenses</td>
<td>3,350</td>
</tr>
<tr>
<td>Annual meeting expenses</td>
<td>2,000</td>
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<tr>
<td>General expenses</td>
<td>4,900</td>
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<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>$156,315</strong></td>
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Add:

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated deficit of:</td>
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</tr>
<tr>
<td>Endowment fund</td>
<td>$7,675</td>
</tr>
<tr>
<td>American Institute Publishing Co., Inc.</td>
<td>4,335</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$168,325</strong></td>
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<tr>
<td>Contingency fund</td>
<td>475</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$168,800</strong></td>
</tr>
</tbody>
</table>
Revenue, Estimated:
From investment .................................................. $ 8,500
Contribution for library from the Foundation .............. 2,425
Miscellaneous ....................................................... 50
Total income ......................................................... $10,975

Expenditures To Be Appropriated:
Salaries and professional fees:
Library staff .......................................................... $ 9,300
Social security taxes ............................................... 400
Administrative expenses:
Stationery and printing ......................................... 50
Postage and express ................................................ 120
Telephone and telegraph ......................................... 155
Rent ...................................................................... 4,400
Insurance .................................................................. 210
Supplies and equipment ......................................... 275
Total ....................................................................... $ 5,210

Library books and magazines .................................... $ 3,300
General expenses ................................................... 440
Total expenditures ................................................ $18,650
Estimated excess of expenditures to be absorbed by general fund $ 7,675
$10,975

American Institute of Accountants Foundation

Revenue, Estimated:
From investments .................................................. $ 2,635
Total income ......................................................... $ 2,635

Expenditures To Be Appropriated:
Contribution to endowment fund—library .................. $ 2,425
Stationery and printing .......................................... 10
General expenses ................................................... 200
Total expenditures ................................................ $ 2,635

To the Directors
Of the American Institute Publishing Co., Inc.

Gentlemen: The committee on budget and finance of the American Institute of Accountants has been requested to prepare, and submit herewith a budget for your corporation for the year ending August 31, 1944:

Revenue, Estimated:
Income from The Journal of Accountancy for subscriptions earned, advertising, and sales of single copies .................................................. $87,500
Income from sales of books ...................................... 8,500
Total income ......................................................... $96,000

Expenditures To Be Appropriated:
Salaries and fee for professional service:
Secretary and managing editor ................................ $ 6,500
Editorial, advertising, and circulation ................. 14,640
Accounting, purchasing, and office services ........... 14,360
Total ................................................................... $ 35,500

Honoraria ......................................................... 2,500
American Institute pension fund .......................... 1,300
Social security taxes ............................................. 1,405
Legal fees ............................................................. 2,000
Administrative expenses:
Stationery and printing.................................................. 400
Postage and express......................................................... 6,100
Telephone and telegraph.................................................. 975
Rent................................................................. 6,050
Insurance and taxes......................................................... 385
Supplies and equipment.................................................. 800

$14,710

Publications:
Direct cost of *The Journal of Accountancy*........................... 36,120
Advertising and promotion.................................................. 2,000
Direct cost of books................................................................ 4,300

$42,420

General expenses................................................................
Total expenditures........................................................... $100,335
Excess of expenditures to be absorbed by general fund................. 4,335

$96,000

Respectfully submitted,

RODNEY F. STARKEY, Chairman
SAMUEL J. BROAD
GEORGE P. ELLIS

October 15, 1943

Report of the Committee on Accounting Machinery

MIDYEAR REPORT

To the Council of the American Institute of Accountants:

Gentlemen: In the last report of this committee, there was outlined a rather comprehensive and ambitious series of articles covering the field of accounting machinery intended for publication in *The Journal of Accountancy*. The purpose of these articles was to supplement the rather meager educational material now available in this field. The directors of the Institute have, however, suggested that during the present war period, technical committees of this type shall refrain from attempting anything more than nominal activity because of the unusual burden which every active practitioner in our profession is carrying.

This committee, therefore, has had no meetings and has prepared only one article for *The Journal*, namely, that on employer's payroll accounting under the "Victory tax" which appeared in the January, 1943, issue. This article was rushed through to meet the new requirements imposed by the withholding provision as to the Victory tax.

Respectfully submitted,

J. ANDREW CRAFTS, Chairman
H. ASHLIN DYKES
ROLAND W. GLEASON
A. KASSANDER
EDWARD Q. KRUCHTEN
J. LEWIS SIMON

April 20, 1943
Reports of the Committee on Accounting Procedure

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: Since its annual report of September 28, 1942, the committee on accounting procedure has continued its efforts along the lines indicated in prior reports with a view to assisting the accounting profession in the solution of various accounting problems arising out of the war. In addition, increasing attention is being directed to postwar accounting problems such as those which are likely to arise in connection with the cancellation of war contracts and with the return of industry to peacetime operations. A consideration of the committee's completed and pending studies, as set forth below, will indicate the extent to which the committee's objectives are being achieved.

The committee's consideration of wartime accounting problems has not, however, been permitted to obscure its basic objective of formulating sound and generally acceptable accounting procedures. The importance of wartime problems is fully recognized, but in all of its studies efforts have been made to preserve a long-term point of view in order that sound procedures may be developed without undue concession to the exigencies of the war situation. For instance, in its bulletin on accounting for CPFF contracts, full consideration was given to the accounting procedures deemed appropriate in peacetime.

The committee has been increasingly concerned with certain developments of accounting procedures in the field of governmental regulation. A conflict between policy and principle in business accounting has long been recognized and it is manifest that the possibility of conflict continues under accounting regulation, and that regulatory policies are sometimes claimed to be based on accounting principles which may not be generally accepted. The committee is gratified that the Institute has evidenced a strong feeling that it should follow closely any such formulations of accounting principle and be prepared to present its views in such manner as may seem most appropriate in specific cases. Under date of January 19, 1943, the chairman of the Institute's committee on public-utility accounting addressed a letter to the chairman of the Federal Power Commission dealing with the accounting disposition of a ledger balance which the Commission had found to result from an issue of capital stock for no consideration. The committee on accounting procedure has taken no formal action in regard to that letter, but copies have been circulated to all members of this committee and no expression of dissent from the views therein expressed has been received.

Bulletins Issued

Two of the studies referred to in the committee's last annual report were completed and issued as Accounting Research Bulletin No. 18, dealing further with the treatment of unamortized discount on refunded bond issues, and Bulletin No. 19, dealing with the accounting for CPFF contracts.

In addition, Bulletin No. 17 was issued, dealing with the so-called postwar refund under the Revenue Act of 1942, and a statement of the research department, based on a poll of the committee members, was issued on the balance-sheet classification of the so-called "V" loans.

The committee also cooperated with the committee on auditing procedure in a study of wartime uncertainties and their effect on financial statements, as to which Bulletin No. 15 in the series of statements on auditing procedure was issued.

The view of the committee as to the applicability of Research Bulletin No. 14 to new series of federal tax notes was made public through the medium of an editorial in the January, 1943, issue of The Journal of Accountancy.

The annual report of the committee on terminology, dealing with "depreciation," was published as Accounting Research Bulletin No. 16.

Studies Continued

Three basic studies of the committee have been continued. A progress report of the subcommittee on inventories was pub-
lished in the January, 1943, issue of The Journal; much remains to be done on this important matter, particularly in view of the situation with respect to inventories which will in all probability arise at the conclusion of hostilities.

The matter of accounting for income taxes in financial statements and the differences between reported net income and taxable net income continued to receive study; many difficult problems remain to be considered.

Finally, the subcommittee on surplus has continued its studies in the hope that the situation with respect to this balance-sheet item may be simplified and clarified through the use of improved terminology. In connection with this study, discussions were held with representatives of the Interstate Commerce Commission as a result of the Commission's use of the term "unearned surplus" in its accounting classification.

**STUDIES INITIATED**

Several further studies have been undertaken. A subcommittee has been appointed under the chairmanship of Professor W. A. Paton to consider the question of the parts that cost and value, respectively, should play in accounting. This question has assumed great importance in view of the changes in uses of accounts and of the conflict between recent orders of regulatory commissions and older court decisions. The subcommittee will deal with the problem of depreciation and expects to have an opportunity to consider in advance of final publication a proposed report on this subject now in course of preparation by a committee of the National Association of Railroad and Utilities Commissioners (NARUC).

Studies have been begun on accounting procedures applicable upon the cancellation and settlement of war contracts; it is understood that the Institute's committee on government audit of contractors' costs is following this matter closely and cooperating with the War Department.

Consideration is being given to a question as to whether intangibles should be allowed to remain in the balance-sheet.

The committee has also coöperated with the committee on auditing procedure in dealing with questions raised by successive issuances of financial statements "as of" a given date, particularly where important developments have occurred in the interim between such issues.

**OTHER MATTERS**

The committee has continued its coöperation with the office of the chief accountant of the Securities and Exchange Commission and has submitted suggestions in connection with certain amendments to Regulation S-X, which were later issued as Accounting Release No. 43; with accounting for war reserves which was later issued as Release No. 42; and with postwar refund of excess-profits tax which was later issued as Release No. 38. In addition, suggestions have been made in respect to a proposed release dealing with redemption premiums on preferred stock retired. The committee is coöperating (through a special advisory committee) with the National Association of Investment Companies and the SEC in the matter of investment-company accounting principles and procedures.

Attention has been directed to the question of the accounting for cash resulting from Victory tax and other deductions from payrolls. The decisions of the Federal Power Commission involving matters of accounting procedure are being studied. Other matters under consideration include stock options, sinking-fund accounting, pension-fund accounting, consolidated statements, etc.

**CONCLUSION**

A meeting of the full committee is being held at this time at which its entire program of studies is to be reviewed and reconsidered in the light of developments up to date. As a result of this meeting it is expected that important decisions will be made as to the future course of the committee's activities.

Respectfully submitted,

WALTER A. STAUB, Chairman

April 30, 1943
To the Council of the
American Institute of Accountants:

Gentlemen: Since the spring meeting of the council, your committee on accounting procedure has given further consideration (1) to its basic objective of formulating sound and generally acceptable accounting principles on a long-range basis, (2) to its studies of current accounting problems arising out of and peculiar to the war, and (3) to anticipated postwar accounting problems. In all of these matters it has continued its policy of cooperation with governmental and other organizations in the statement of accounting principles and the determination of appropriate accounting procedures.

In carrying on its long-range program, your committee has continued its studies as to such matters as inventories, surplus, and the respective functions of cost and value in accounting. A preliminary memorandum of its subcommittee on cost and value will be considered at the committee's meeting during the annual meeting.

In dealing with accounting problems arising out of the war, your committee has given further consideration to such matters as the reporting of income and excess-profits taxes in published statements, the amortization of war facilities, and the renegotiation of government contracts. A memorandum dealing with certain problems arising out of the difference between general accounting and income-tax accounting will be considered at the approaching meeting; these differences have become increasingly important with increased tax rates. It is hoped that a bulletin dealing with these problems will be issued shortly after the meeting. The matter of reporting, in the financial statements, on the possibility or results of renegotiation has now reached a stage where a further bulletin may be necessary.

Increased concern is being expressed in the business world as to the problems of postwar adjustment and there is a good deal of interest in such matters as the termination of government contracts, the establishment of reserves to take care of various postwar costs and contingencies, and the amortization of war facilities. It is manifest that functioning of the economy in the postwar period will depend to a very large extent upon the manner in which these problems are handled. Your committee believes that accountants are in a position to recommend procedures which will help the business community in solving the difficult problems which it will face after the war. Your committee is keenly aware of the importance of these matters and it has cooperated with the War Department, the Treasury Department, and other organizations in efforts to arrive at adequate and effective solutions. In the matter of termination of war contracts, it has cooperated with the committee on government audit of contractors' costs and it may be necessary to provide for more intensive cooperation with that committee in order to meet the demands of the situation.

Governmental Regulation of Accounts

Problems arising out of the governmental regulation of accounts have been given much consideration by your committee. As indicated in its spring report, your committee is gravely concerned as to some of the accounting rules formulated by regulatory bodies. The executive committee and the council of the Institute have indicated a desire on the part of the Institute to use its expert and disinterested knowledge of accounting to promote the promulgation of sound accounting rules by regulatory bodies through the medium of representations made to such bodies or, in litigated cases, by the filing of a brief as amicus curiae. The committee on accounting procedure has expressed its satisfaction with this policy and is ready to cooperate with the executive committee in carrying it out. It has approved the action taken by the committee on public-utility accounting with respect to the Northwestern Electric Company case and has authorized its own chairman to represent it, in conjunction with the executive committee and committee on public-utility accounting, in determining what further action should be taken.

The problems of regulatory accounting have been brought sharply to the foreground by the issuance of SEC Accounting Series Release No. 45, dealing with the
accounting treatment of premiums paid on the retirement of preferred stock. This release had been under consideration by the Commission for over two years, and your committee had submitted its views to the Commission. The release as issued includes new matters which had not been discussed with your committee, and is, in several material respects, at variance with the views of your committee. As a result of these differences of opinion, a subcommittee was appointed to study the matter, and its report, approved in substance by over two-thirds of the membership of the committee, was discussed informally with the chairman of the Commission by the secretary and director of research of the Institute. The chairman of the Commission indicated that the matter would be reconsidered and that a further opportunity would be afforded for the Institute to express its views. In this regard, it is hoped that the discussion will lead to a reconsideration of the procedure under which the Commission issues its accounting releases.

The Federal Communications Commission has issued proposed amendments to its uniform system of accounts for Class A and Class B telephone companies. The amendments are being considered by your committee and its views thereon will be transmitted to the Commission. Emphatic dissent has been expressed as to certain retroactive changes and to a proposal to classify surplus in order to segregate surplus arising from intercompany transfers. It is hoped that these objectionable features in the proposed system may be eliminated.

Your committee has cooperated in a number of other matters with the Securities and Exchange Commission, the Interstate Commerce Commission, and the War and Treasury Departments. It has submitted its views on a number of SEC releases; it has submitted views of its individual members to the Interstate Commerce Commission with respect to the amortization of war facilities; in conjunction with the committee on war contracts, it has had extensive contact with the War Department in the matter of settlements under terminated war contracts; it has cooperated with the research division of the Treasury Department in the matter of reserves for postwar costs and contingencies.

**Depreciation**

A committee of the National Association of Railroad and Utilities Commissioners recently issued a voluminous report on depreciation, and purported to give the Institute an opportunity to review the draft and to submit comments prior to submission to the Association. As a matter of fact, the opportunity was afforded to only a few members of the committee and the time for examination and study was so limited as to preclude anything like adequate consideration. Your committee, therefore, addressed a letter to the chairman of the NARUC committee, setting forth these facts and requesting further time to consider the report. Despite this request and the inadequate opportunity afforded the Institute for review of the draft, the report was presented to the Association by its committee in September. The Association has not adopted the report, but did approve of its printing and circularization. It is our understanding that the question is still open for further consideration.

The principal questions which were raised in the aforesaid letter were as follows:

1. It stressed the inequity of applying retroactively the straight-line method of depreciation after regulatory commissions had for many years prescribed or sanctioned the use of the retirement-reserve method. The letter pointed out that straight-line depreciation, however undeniable and great its merits, was a conventional method of allocation, and that retroactive changes in conventions were open to grave objections unless the transition period was fairly dealt with.

2. The letter suggested the desirability of making clear in the report that the word depreciation" was used therein in at least three materially different senses:
   (a) To connote a decline in value from any cause whatever;
   (b) To connote a decline in value resulting from partial exhaustion of usefulness;
   (c) To describe a method of amortizing cost over life without regard to residual value during the period.

3. The acceptability of a definition of depreciation proposed by the committee was questioned in respect of both its substance and its phraseology.

4. The NARUC Committee's report expressed the opinion that public accountants had a responsibility to indicate in
financial statements the proper depreciation expense and reserve requirement. The letter pointed out the desirability of securing agreement between accountants and the Commission as to what in principle the depreciation reserve should provide for. It suggested that an understanding could not be reached without a conference or exchange of views for which no opportunity had been afforded. It added that an exchange of views would promote the cooperation between commissions and accountants which both the NARUC and the Institute desired.

The committee on terminology records further action on the subject of depreciation in its report which it is submitting contemporaneously with this report.

**Stock Dividends**

Under date of October 7, 1943, the New York Stock Exchange issued a statement dealing with its practice in regard to listing stock issued by way of dividend. In this statement the Exchange quotes extensively from Accounting Research Bulletin No. 11 and intimates that its policy has been modified so as to conform to the views expressed in that bulletin. The committee regards as significant this cooperation between the two bodies in a matter involving proper accounting and corporate policy.

**Other Matters**

The advisory committee on investment-company accounting, which functions under the general supervision of the committee on accounting procedure, has reviewed and discussed with representatives of the National Association of Investment Companies a memorandum prepared by that organization on investment-company accounting principles. The memorandum was also submitted to the chief accountant of the Securities and Exchange Commission and is now in process of revision. The memorandum is a step in the direction of establishment of uniform accounting principles and procedures for investment companies.

Your committee has concluded that the proposed bulletin on inventories should be deferred until the end of the war. In the meantime, further studies are being made of inventory practices and problems for use in the preparation of the bulletin.

The subcommittee on surplus has continued its studies and expects to submit a memorandum at the approaching meeting of the full committee.

As indicated above, the matter of reserves for postwar cost and contingencies is being studied by the research department and the results of such studies are being submitted to the Treasury Department.

Following a conference of committee representatives with members of the SEC staff, consideration has been given to the accounting for intangibles in the balance sheet. The research department has made studies and the matter now awaits further action by the Securities and Exchange Commission.

**Enforcement**

It was decided at the outset that the committee's research bulletins should depend upon general acceptability and that the burden of proof should be on the accountant who felt that special circumstances required departure from the rules of the bulletins. A case was presented to the committee in which a member of the Institute was alleged to have departed from the rule set forth in one of the bulletins without disclosure as to such departure. After considering the matter carefully the committee concluded that its functions should not include that of passing upon alleged failures to follow the recommendations of its bulletins.

Respectfully submitted,

Walter A. Staub, Chairman
George D. Bailey
Archibald Bowman
William D. Cranston
William Eyre
Stephen Gilman
Anson Herrick
Henry A. Horne
Paul K. Knight
Edward A. Kracke
George O. May
Warren W. Nissley
William A. Paton
Maurice E. Peloubet
Hiram T. Scovill
Francis Small
Jackson W. Smart
Charles H. Towns
Edward B. Wilcox
T. Dwight Williams
Sidney G. Winter

October 15, 1943
Report of the Committee on Annual Awards

ANNUAL REPORT

To the Council of the American Institute of Accountants:

Gentlemen: By action of the executive committee, taken at its meeting August 12, 1943, the president of the Institute appointed a subcommittee to study the recommendations of the staff that the Institute establish annual awards for outstanding service to the profession. The committee so appointed has made its study of this problem and reports as follows:

The American Institute of Accountants would establish three annual awards, as follows:

(1) For outstanding service to the accounting profession within the award year.
(2) For the outstanding book or article of the year in the field of accounting or auditing.
(3) For outstanding research work in accounting or auditing by a student. (The offering of any award under this item should be withheld until after the termination of the war.)

The committee is of the opinion that any award under Item 1 should comprehend the accounting profession rather than be confined to outstanding service to the American Institute; that Item 2 should comprehend writings of books or articles on the basis that in an award year an outstanding book may not have been published but other articles would warrant an award; and that any award for research work by a student be suspended until after the termination of the war because of the dearth of students in the professional schools at the present time.

In the establishment and management of these awards, the committee suggests that:

(1) A committee on American Institute annual awards be appointed by the president of the Institute as soon as possible after each annual meeting.
(2) The first awards of the plan be presented at the 1944 annual meeting of the American Institute.
(3) Each award take the form of a medal, to be accompanied by a citation suitable for framing.
(4) The Institute committee may seek the advice of such other professional bodies as it deems advisable.

Respectfully submitted,

H. L. Dalton, Chairman
Samuel J. Broad
Charles W. Jones

October 12, 1943

Reports of the Committee on Auditing Procedure

MIDYEAR REPORT

To the Council of the American Institute of Accountants:

Gentlemen: The committee on auditing procedure has held three formal meetings since the last meeting of the council. These meetings were attended by an average of eleven members, in addition to invited representatives of the committee on accounting procedure and staff members. In accordance with the announced policy of the Institute, the committee passed a resolution at its meeting on November 13, 1942, to the effect that for the duration of the war it would concentrate its attention on problems arising out of the war, except for matters already under consideration or specifically directed to it. The committee's activities have followed this general pattern.

Statements Issued

Since the last council meeting, the committee has issued seven Statements on Auditing Procedure, Nos. 12-18, inclusive.

Statement No. 12 embodies the supplementary report of the committee to the council in the spring of 1942, which amends "Extensions of Auditing Procedure" in respect of disclosure in the accountant's report in all cases in which the extended procedures regarding inven-
tories and receivables are not carried out. This supplementary report was formally approved at the annual meeting of the Institute in Chicago on October 1, 1942, and has been published under the title of "Amendment to Extensions of Auditing Procedure." The New York State Society of Certified Public Accountants recently adopted a similar amendment to "Extensions of Auditing Procedure."

Statement No. 13 represents the third statement on "The Auditor’s Opinion on the Basis of a Restricted Examination" and relates to the reserves of so-called face-amount certificate companies. In this statement the committee concluded that an examination of such companies which excludes consideration of reserves would require an exception in the accountant’s report, so extensive as to preclude his expressing even a qualified opinion.

Statement No. 14 discusses "Confirmation of Public Utility Accounts Receivable" and deals with the extent of confirmation by communication with the debtors in the case of such companies having a large number of “mass” accounts receivable and a good system of internal control.

"Disclosure of the Effect of Wartime Uncertainties on Financial Statements" is the title of Statement No. 15, which was prepared by joint subcommittees of the committees on auditing and accounting procedure and ultimately issued by this committee. Eighteen members of the committee on auditing procedure formally approved this statement and there were no dissenting votes. The statement emphasizes the limitations of current financial statements brought about by the renegotiation of war contracts, taxation, and other wartime uncertainties. It points out the desirability of adequate disclosure of these uncertainties in footnotes to the financial statements and, where appropriate, in the auditor’s report.

While not directly related to the war, case studies on inventories which had been prepared by a subcommittee were deemed to be of sufficient general interest for publication, and were issued as Statement No. 16. The case studies covered suggested auditing procedures to be undertaken by independent public accountants under certain circumstances in the case of (a) materials stored in piles, (b) packaged materials stacked in solid formation, (c) chain stores, and (d) department stores.

Among the special wartime problems confronting the independent public accountant which have been referred to the committee is the situation where the client omits the usual taking of inventories in order not to interrupt production of war materials. The committee dealt with this problem in Statement No. 17, "Physical Inventories in Wartime," setting forth the significance of physical inventories in general, the alternative auditing procedures available, and the effect on the independent accountant’s report. Reference was also made to the position of the Securities and Exchange Commission as set forth in its Accounting Series Release No. 30 which had previously been discussed with the committee prior to its issuance.

Statement No. 18, issued in January, 1943, deals with "Confirmation of Receivables from the Government." In this statement the committee indicated that the independent accountant may be able to satisfy himself by other means when he is unable to receive satisfactory confirmation of receivables from government departments and agencies. It also suggested the type of disclosure to be incorporated in the accountant’s report to cover such situations.

Other Activities

In addition to the aforementioned formal statements, a report by a subcommittee on confirmation of inventories in public warehouses was published in the November issue of The Journal of Accountancy.

The chairman of the committee addressed a letter to the department of stock list of the New York Stock Exchange in December indicating that the difficulties confronting accounting staffs of corporations and public accountants as a result of the critical shortage of manpower were even greater than at the time of the earlier correspondence with the Exchange which was incorporated in "Auditing under Wartime Conditions" (Statements on Auditing Procedure No. 10). Following this letter, the Exchange relaxed its requirements as to the time for issuing published reports to stockholders by extending the time limit to a date fifteen days in advance of a post-
poned annual meeting or the reconvening of an adjourned meeting of stockholders, provided the company publishes a preliminary report of operations appropriately qualified as being subject to audit and related adjustments.

In the preparation of statements already issued by the committee and the consideration of other matters now pending, the chairman and other members of the committee have frequently discussed the questions involved with the chief accountant of the Securities and Exchange Commission. The committee believes this policy is a sound one and should result in mutual understanding between the Commission and the profession as to auditing matters.

Questions of auditing procedures affecting government audits of war contracts are currently being considered by the Institute's committee on government audit of contractors' costs, which is cooperating with the government in an advisory capacity. The committee on auditing procedure is represented on this wartime committee through its chairman.

Matters Presently Under Consideration

Three of the matters mentioned in the 1942 annual report to the council as representing statements in the course of preparation are still pending before the committee in view of difficulties in reaching final agreement. These matters embrace the meaning of consistency in the application of accounting principles as used in the short-form accountant's report, responsibility of the independent accountant in connection with illegal and improper conduct of a client corporation, and the use of the phrase "on the authority of such firm as experts" in registration statements filed with the SEC. Subcommittees have been appointed to deal with each of these subjects.

The committee has also been giving active consideration to the question of successive issues of financial statements as of the same date, and joint subcommittees of the committees on accounting and auditing procedure assigned to this subject have concluded that the matter would best be dealt with by a statement of this committee. It is hoped that a statement will soon be forthcoming setting forth the position of the independent accountant in relation to significant developments occurring after the date as of which the financial statements are prepared.

Several questions have been brought to the attention of the committee as to various aspects of the standard short form of auditor's report. Such questions include the distinction between "exceptions" and mere disclosure; the effect on the auditor's opinion of an exception regarding the scope of his work; the meaning of the term "generally accepted principles of accounting"; reference to statements of both years where comparative statements are issued; and other matters of terminology. A subcommittee has been appointed to undertake a comprehensive study of the present short form of report.

As in the past, the chairman of the committee and the research staff have dealt with certain matters of auditing procedures which did not warrant consideration by the full committee.

Respectfully submitted,

Samuel J. Broad, Chairman
April 15, 1943

ANNUAL REPORT

To the Council of the American Institute of Accountants:

Gentlemen: The most important matter considered by the committee on auditing procedure since the spring meeting of the council concerns the functions of independent public accountants in connection with settlements under terminated war contracts. Many contracts have already been terminated for the convenience of the government and it is expected that the rate will increase until the time of general terminations at the end of the war. In view of the important influence of termination settlements on the national economy, it is essential that such settlements be expedited as much as possible. To this end the War Department has devised a standard termination article for insertion in fixed-price supply contracts,

Reports of Committees
which, among other things, provides for a so-called negotiated settlement of the uncompleted portion of a contract. The War Department has also issued Procurement Regulation No. 15, prescribing the principles and rules to be followed by contracting officers in termination settlements, and a termination accounting manual for the guidance of government personnel in their accounting review or examination of contractors' proposals under negotiated settlements. Copies of both of these documents have been sent by the Institute to all of its members and associates.

Recognizing an obligation on the part of the Institute to inquire into methods by which the independent public accountant could render services which would facilitate speedy termination settlements, a special meeting of the committee was held in New York on June 18th to consider the matter. At this meeting, which was also attended by members of the Institute’s executive committee, it was generally agreed that independent public accountants may express an opinion as to the adequacy of the cost data presented in support of a contractor’s proposed settlement under a terminated contract, and as to such data having been prepared in accordance with recognized accounting practices. A subcommittee was appointed to prepare the draft of a bulletin on the examination of contractors’ statements of proposed settlements by independent public accountants and on the related conclusions as to policy reached at the foregoing meeting. This bulletin is now being prepared and will be considered by the full committee at a meeting to be held in New York City on October 18th.

**Other Bulletins under Consideration**

While no formal statements on auditing procedure were issued during the period, several matters previously under consideration were advanced to the stage where it is hoped that statements thereon may be issued in the near future. These matters, most of which have been referred to in earlier reports of the committee, deal with: the method of confirmation of receivables; accountants’ responsibility in connection with securities registrations; compliance with government wartime regulations; and the form of the auditor's short-form report.

The committee has had under consideration the method of confirmation of receivables with particular reference to the use of the “positive” and “negative” methods. A draft of a bulletin dealing with the subject has been prepared and submitted to the committee for review at its approaching meeting and it is expected that a bulletin will be issued in the near future.

As indicated in the 1942 annual report, the occasion for consideration of accountants’ responsibility on securities registrations is the established practice in certain quarters of making declarations, in registration statements filed with the SEC under the Securities Act of 1933, that the financial statements, supporting schedules, and other information covered by the accountant’s report are “given on the authority as such firm as experts.” The committee has before it for consideration a memorandum on this subject, pointing out the ambiguity of the foregoing phrase and calling attention to alternative and more satisfactory types of declarations which have been used.

The committee has, for some time, studied the matter of the independent public accountant’s responsibility in respect of improper and illegal transactions by a corporate client. In view of the extensive scope of this subject and an apparent lack of agreement among committee members as to certain of its aspects, it was decided at the spring meeting that further consideration should be confined to the accountant’s responsibility in respect of compliance by corporate clients with government wartime regulations only, of which those respecting wage stabilization are, no doubt, of primary financial significance. A bulletin on this subject is now in process of preparation.

Earlier reports have, from time to time, referred to questions brought to the attention of the committee on various aspects of the standard short form of accountant’s report. A subcommittee was appointed to study this matter and has recently rendered a report on various phases of the subject, which will probably be published shortly. The subcommittee does not recommend any change in form at this time but points out that previous statements of the committee recognized the necessity for a certain degree of elasticity therein.
Subsequent to the publication of Statements on Auditing Procedure No. 18 dealing with confirmation of receivables from the government, questions have arisen as to the form of disclosure in the accountant's report where such confirmation was not obtainable. This is one of the matters dealt with in the report of the subcommittee referred to in the preceding paragraph.

OTHER MATTERS

Other inquiries recently referred to the committee, which are still in their preliminary stages, relate to the auditor's responsibility in respect of reserves for renegotiation; auditing procedures relative to V loans; and the confirmation of life-insurance policies. The research staff has also answered inquiries relating to such matters as possible reasons for the failure of an accountant to render an opinion in certain cases, and the nature of the accountant's report on the financial statements of a coal company being operated by the government.

Respectfully submitted,

SAMUEL J. BROAD, Chairman
JOHN N. AITKEN, JR.
Percival F. Brundage
Fred J. Duncombe
George P. Ellis
Ira N. Frisbee
P. W. R. Glover
Edward A. Kracke
Norman J. Lenhart
John A. Lindquist
Frank Wilbur Main
Victor H. Stempf
George Wagner

October 6, 1943

Reports of the Committee on Bankruptcy

MIDYEAR REPORT

To THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: With the change that has come about in the economic condition of the country, from that of the closing stages of a long economic depression to one of great war activity, there necessarily has been a decrease in bankruptcy and reorganization proceedings. At the same time the activity of your committee in matters of bankruptcy legislation has been less than in former years by reason of the passage of the Chandler Act, which became law in 1938, and which has now become stabilized as part of our system of jurisprudence.

There are still, however, some sections of the law which are occasioning trouble, among which may be mentioned Section 60 relating to voidable preferences. This section of the law has radically affected the business of financing accounts receivable. The recent opinion which Mr. Justice Jackson delivered on March 8, 1943, in Corn Exchange National Bank v. Klauder, Trustee of Bankrupt, makes it imperative that there be uniformity in state legislation regarding the recording of pledges of accounts receivable. This matter is receiving your committee's attention.

Another matter that still requires attention is sections 270, 396, and 522 of the Federal Bankruptcy Act. These sections relate to the reduction in the "basis" of the debtor's property attendant upon a cancellation of an indebtedness. Your chairman prepared a leading article on "Section 270 of the Federal Bankruptcy Act," which appeared in the February issue of the Temple University Law Quarterly of Philadelphia. The Journal of Accountancy also will publish an article on this subject in the near future. Your committee recommends to the council that it adopt appropriate resolutions to be forwarded to the Honorable Hatton W. Sumners, chairman of the Committee on the Judiciary, House of Representatives of the United States, and to the Honorable Frederick Van Nuys, chairman of the Committee on the Judiciary, United States Senate. Such resolutions to recommend either the repeal of sections 270, 396, and 522 of the Federal Bankruptcy Act, or their amend-
ment by the inclusion therein, in the proper places, of the words:

"which cancellation or reduction but for the provisions of Section 268 (395, or 520) would have resulted in taxable income."

The so called Referee Bill relating to the establishment of salaried referees is still pending, and your committee is following the developments of this piece of legislation.

The National Bankruptcy Conference has not held any meeting since June 12, 1942, at which meeting the American Institute of Accountants was well represented.

It is recommended that the Institute continue as a contributing member of the National Bankruptcy Conference.

Respectfully submitted,

CHARLES S. J. BANKS, Chairman
April 29, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The bankruptcy committee during the past year has continued to give its attention to matters affecting our profession, and has cooperated with various other committees of state societies of certified public accountants and committees of several bar associations.

No meeting of the National Bankruptcy Conference was held during the year, and Congress has been too busy with its war legislation to give much attention to this field of legislation. Two matters of importance, however, have received our consideration.

"In May, 1943, The New York State Society of Certified Public Accountants, through its committee on bankruptcy procedure, requested the collaboration of our committee in considering the advisability of initiating action looking to an amendment of Rule XLV of the General Orders in Bankruptcy, promulgated by the United States Supreme Court, April 13, 1925, which relates to the retention and compensation of accountants in bankruptcy cases. Experience in the New York jurisdiction and possibly also in other sections of the country has shown that accountants are frequently at a disadvantage in obtaining adequate and just compensation for their services in bankruptcy cases under the present Supreme Court rule. It, therefore, seemed advisable to survey the experiences of practicing accountants in relation to this question and to formulate a program looking to such revision in the rules of the Supreme Court as would place the accounting profession on the same basis as the legal profession so far as the retention and compensation are concerned.

Accordingly, a subcommittee, comprised of Raymond E. North and Michael Peyser of New York City, and Joseph K. Moyer of Washington, D. C., was appointed to collaborate with the committee of the New York State Society of Certified Public Accountants. Several meetings of the joint group were held in New York during the summer of 1943. As a matter of expediency it was decided that a subcommittee of the committee on bankruptcy procedure of the New York State Society of Certified Public Accountants will proceed with the preparation of a report dealing with this subject for submission to the board of directors of such state society. Thereafter, if approved, it is contemplated that the report will be submitted to the American Institute of Accountants for reference to our committee. It is recognized that since the objective is national in scope, the sponsorship of the movement to have the Supreme Court rule amended should not be confined to any one state society. On the contrary, it is recognized that the effort should be made in behalf of the entire profession through the American Institute of Accountants as well as through the various state societies."

Your committee on bankruptcy recommended, and the executive committee, at its meeting of August 12th, adopted the following resolution proposing amendment of Section 270 of the Federal Bankruptcy Act:

"WHEREAS the executive committee of the American Institute of Accountants is aware of the inequities resulting from the interpretations placed upon Section 270 of the Federal Bankruptcy Act by the administrative offices of the Treasury Department and whereas these inequities result in a discriminatory reduction in basis of taxpayers who have been reorganized
under the Act, particularly when compared with the status of railroad corporations as provided in the Revenue Act of 1942, and whereas the executive committee deems it to be a matter of prime importance that such inequities be removed as soon as possible;

"Now therefore be it resolved that the following proposed amendment to Section 270 of the Federal Bankruptcy Act, as amended, be approved in principle as setting forth the desire of the American Institute of Accountants to bring this matter in a practical way to the attention of the judiciary committees of the House and Senate:

"That Section 270 of the Federal Bankruptcy Act should be repealed, and that the following be substituted therefor:

"Section 270. The tax basis of property of a corporation reorganized under this chapter, or reorganized under Section 77-B of the Federal Bankruptcy Act, as amended on June 7, 1934, shall not be decreased as a result of its reorganization; the basis shall be the same as it was in the hands of the company or its predecessor transferor prior to reorganization. The term 'reorganization' as used in this paragraph, shall not be limited by the definition of such term in Section 112(g) of the Internal Revenue Code. Such basis shall be utilized for invested-capital computations as well as for the computations affecting income.

"This rule shall be applicable to property retained or acquired in a reorganization effected pursuant to an order of the court under the Federal Bankruptcy Act, as amended, entered after June 7, 1934.

"Nothing in this section, however, shall change or limit the running of the statutes of limitations relating to the filing of amended tax returns or the filing of claims for refund which otherwise might be alleged to have been illegally collected.

"And be it further resolved that the president be instructed to transmit a copy of this resolution, together with the proposed amendment, to the respective chairmen of the House and Senate Judiciary Committees."

In addition to these activities, the chairman of the committee is working with the American Bar Association, the New York Bar Associations, and the Director of the Division on Bankruptcy of the Administrative Office of the United States Courts, looking to a uniform adoption by them of the above proposed amendment to Section 270 of the Federal Bankruptcy Act.

Respectfully submitted,

Charles S. J. Banks, Chairman
J. D. Cloud
Orville E. Johnson
Joseph K. Moyer
Raymond Edward North
Michael Peyser
Guy M. Scott
Paul R. Smoak
Arthur C. Upleger

October 4, 1943

Reports of the Committee on By-Laws

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: Certain amendments to the by-laws have been recommended because members and associates of the Institute who have resigned or been dropped from membership through failure to pay dues now sometimes find it less costly to make a new application for admission to the Institute than to take advantage of the existing provisions for reinstatement. This situation was brought about by the reduction (and in the case of members of state societies the waiver) of application fees for new applicants.

Proposed Amendment to Article V, Section 3(a)

The purpose of this proposed amendment is as follows:

The man who applies for reinstatement under Section 3(a) did not owe the Institute any money at the time he resigned. He will be permitted, upon reinstatement, to receive a certificate showing the date of his original admission to the Institute, and a fee of $5.00 is suggested as being reasonable. A high reinstatement fee would be inequitable when compared with an ac-
countant applying for admission and might discourage a former member who left in good standing from regaining his membership.

Article V, Section 3(a) shall be amended by striking out the words:

". . . provided the person applying shall submit with his application for reinstatement the amount of dues and assessments, subscriptions, etc., not in any case to exceed $25, which would have been payable by him if he had continued in membership from the time of resignation to the date of application for reinstatement."

and substituting:

". . . provided the person applying shall submit with his application for reinstatement a reinstatement fee of $5."

so that Section 3(a) shall read as follows:

"A member or an associate who shall resign while in good standing may be reinstated by the executive committee, provided the person applying shall submit with his application for reinstatement a reinstatement fee of $5."

PROPOSED AMENDMENT TO ARTICLE V, SECTION 3(b)

The purpose of this proposed amendment is as follows:

The accountant seeking reinstatement under Section 3(b) left the Institute owing a full year's dues (and having received half a year's service from the Institute). It seems reasonable to expect him to pay back the obligation on which he defaulted plus a $5 fine, but that a ceiling of $30 be placed upon reinstatements so as not to make the cost of reinstatement prohibitive. There are some members who, through carelessness or temporary financial pressure, pay their dues a few weeks after the close of the grace period. A penalty of $10 is rather strict. However, a penalty of some sort appears desirable. A $5 fine is suggested.

Article V, Section 3(b) shall be amended by striking out the words:

". . . provided that the person applying shall submit with his application for reinstatement the amount of dues and assessments, subscriptions, etc., which would have been payable by him if he had not forfeited his membership, plus a fine of $10."

and substituting:

". . . provided the person applying shall submit with his application for reinstatement the amount of dues and assessments which would have been payable by him if he had not forfeited his membership, plus a fine of $5, the total amount payable in any case not to exceed $30."

so that Section 3(b) shall read as follows:

"The executive committee, in its discretion, may reinstate a member or an associate whose membership shall have been forfeited for nonpayment of dues or other sums due by him to the Institute, provided the person applying shall submit with his application for reinstatement the amount of dues and assessments which would have been payable by him if he had not forfeited his membership, plus a fine of $5, the total amount payable in any case not to exceed $30."

If the foregoing amendments, subject to revision and approval by counsel for the Institute, are found desirable, it is proposed that a paragraph (d) be added to Section 3 of Article V which would read as follows:

"A member or an associate who has resigned or forfeited his membership may not file a new application for admission but may apply for reinstatement under paragraphs (a) or (b) of this section."

Respectfully submitted,

HAROLD A. MOCK, Chairman
May 1, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: At its meeting May 10, 1943, council approved for submission to the membership at the annual meeting the amendments to the by-laws set forth in this report. These amendments to the by-laws have been recommended because mem-
Proposed Amendment to Article V, Section 3(a)

The purpose of this proposed amendment is as follows:

The man who resigned in good standing and applies for reinstatement under Section 3(a) did not owe the Institute any money at the time he resigned. He will be permitted, upon reinstatement, to receive a certificate showing the date of his original admission to the Institute, and a fee of $5 is suggested as being reasonable. A high reinstatement fee would be inequitable when compared with the fees required of a new applicant for admission, and might discourage a former member who left in good standing from regaining his membership.

Article V, Section 3(a) shall be amended by striking out the words:

"... provided the person applying shall submit with his application for reinstatement the amount of dues and assessments, subscriptions, etc., not in any case to exceed $25, which would have been payable by him if he had continued in membership from the time of resignation to the date of application for reinstatement."

and substituting:

"... provided the person applying shall submit with his application for reinstatement a reinstatement fee of $5."

so that Section 3(a) shall read as follows:

"A member or an associate who shall resign while in good standing may be reinstated by the executive committee, provided the person applying shall submit with his application for reinstatement a reinstatement fee of $5."

Proposed Amendment to Article V, Section 3(b)

The purpose of this proposed amendment is as follows:

The former member who seeks reinstatement under Section 3(b) left the Institute owing a full year's dues (and having received half a year's service from the Institute). It seems reasonable to expect him to pay back the obligation on which he defaulted plus a $5 fine, but that a ceiling of $30 be placed upon reinstatements so as not to make the cost of reinstatement prohibitive. There are some members who, through carelessness or temporary financial pressure, pay their dues a few weeks after the close of the grace period. A penalty of $10 is rather strict. However, a penalty of some sort appears desirable. A $5 fine is suggested.

Article V, Section 3(b) shall be amended by striking out the words:

"... provided that the person applying shall submit with his application for reinstatement the amount of dues and assessments, subscriptions, etc., which would have been payable by him if he had not forfeited his membership, plus a reinstatement fee of $10."

and substituting:

"... provided the person applying shall submit with his application for reinstatement the amount of dues and assessments which would have been payable by him if he had not forfeited his membership, plus a fine of $5, the total amount payable in any case not to exceed $30."

so that Section 3(b) shall read as follows:

"The executive committee, in its discretion, may reinstate a member or an associate whose membership shall have been forfeited for nonpayment of dues or other sums due by him to the Institute, provided the person applying shall submit with his application for reinstatement the amount of dues and assessments which would have been payable by him if he had not forfeited his membership, plus a fine of $5, the total amount payable in any case not to exceed $30."

Proposed Additional Paragraph to Article V, Section 3

If the foregoing amendments are adopted it appears reasonable to require former members and associates to gain readmission through reinstatement procedure rather than to permit application for admission in the usual manner.

It is proposed that paragraph (d) be added to Section 3 of Article V which would read as follows:

"A member or an associate who has resigned or forfeited his membership may not file a new application for admission but may apply for reinstatement under paragraphs (a) or (b) of this section."

Respectfully submitted,

Harold A. Mock, Chairman
Harry W. Cuthberton
Alexander J. Lindsay
Walter A. Musgrave
John A. Peyroux, Jr.

August 18, 1943
To the Council of the
American Institute of Accountants:

Gentlemen: After the exchange of an agreement between members of this committee that they would handle its activities in the communities in which they live, the services of the committee were offered to the American Bankers Association and to the Robert Morris Associates with a view that any matters of controversy, criticism, or recommendation between the banking and accounting professions might be cleared through this committee.

The only subject submitted to the committee by a commercial banker relates to the form of the request for confirmation of bank balances and notes payable, and particularly to the placing of the names of the accounting firm and banker. It was agreed that when a new plate for reproduction of these forms is prepared by the American Institute of Accountants, the form of address will be so changed as to enable the confirmation request, to be mailed in a window envelope.

One complaint was received by the committee with regard to charges proposed by a metropolitan bank for confirmation of the liabilities of a client, and this was dealt with by personal interview by a member of the committee.

Your committee communicated with the presidents of all state societies, advocating that they appoint a similar committee on cooperation with bankers in their localities so that your committee of the Institute might hereafter deal uniformly in its relations with commercial bankers through the activities of such state committees. Your committee is pleased to report that many state societies have appointed such committees, and that they have been active in arranging joint meetings or at least in inviting the local bankers to the CPA meetings with a view of establishing friendly relationships for cooperative action where necessary.

It is the belief of your committee that a continuation of the work in coöperation with commercial bankers and credit men is essential, even though the program at the present time may be dormant rather than constructive.

Respectfully submitted,

Albert J. Watson, Chairman
Kins S. Collins
Oscar R. Davis
Arthur C. Droegemueller
Russell C. Everett
Rene J. LeGardeur
Eustace LeMaster
Harward L. Mann
Vernon J. Moore
J. M. Neumayer
Warren W. Nissley
Charles S. Rockey
Edw. P. Tremper, Jr.

October 15, 1943

Reports of the Committee on Coöperation with Bar Association

Midyear Report

To the Council of the
American Institute of Accountants:

Gentlemen: In accordance with your instructions, the committee on coöperation with Bar Association has had no active program during the present year. It has, however, carefully watched such matters as might affect the relations of our profession with those of the legal profession and it now desires to report briefly thereon.

Litigation

The Superior Court in Equity of the Commonwealth of Massachusetts recently handed down a decision in the case of Lowell Bar Association v. Birdie T. Loeb et al. In this case Mrs. Birdie T. Loeb was the owner or proprietor of a business known as The American Tax Service, although it appears her husband, who is an attorney-at-law, was the real owner.

The concern had several employees en-
gaged in the business of making out tax returns and it advertised extensively in the newspapers. The charge for making out a short form of income-tax return was $2.00 and for a long one $3.75. Apparently the American Tax Service did a considerable business in making out such returns and the income from the work was more or less substantial. None of those employed to make out the tax returns were lawyers.

The judge found that the defendants were engaged in drafting numerous tax returns, the returns were drafted as the regular occupation of the defendants, such occupation yielded a substantial income, and, therefore, the defendants were engaged in the practice of the law.

It is understood that the defendants will appeal this decision and the case will be watched very carefully not only by counsel for the Institute, but also, it is understood, by counsel for the Massachusetts Society of Certified Public Accountants. The defendants in the case are not certified public accountants and are not lawyers, but, notwithstanding that important distinction, the decision is a very serious one for the accounting profession.

The case of Richter v. Moon, in which a certified public accountant sued for a fee for tax work and the defendant alleged that the services of Richter (a member of the Institute) were illegal in that they involved the practice of law, was settled in favor of the accountant.

Practice Before the Tax Court of the United States

In the Revenue Act of 1942 Congress prohibited the Tax Court of the United States from denying admission to practice to any qualified person because of his failure to be a member of any profession or calling. The Tax Court, which was opposed to this provision on the ground that it would open the door to a large number of people who had not demonstrated their fitness to represent taxpayers before the Court, has issued new regulations, the most important of which is that new applicants for admission to practice other than lawyers will be required to take a written examination. A report on the steps taken by the Institute in opposition to this important change in the position of members of our profession will no doubt be made by others, but this committee will watch carefully future developments, and particularly the type of examination to be given future applicants for admission from our profession.

Federal and State Legislation

During the present session there have been introduced three bills into the U. S. House of Representatives, and two bills into the Senate which would restrict some of the privileges now enjoyed by accountants in their work before the various boards of the federal government. Similar bills were introduced by the same Congressmen in previous sessions and your committee has followed the policy of previous committees in taking no action against these bills unless the bills become active. The Institute’s counsel in Washington is keeping a close watch over these bills, and in the event that they become active your committee’s opposition will be made known at a committee hearing or by direct communication with Congressmen.

Bills having the same restrictive features in favor of attorneys have been introduced in the Minnesota legislature, and we are advised that the members of the Minnesota Society of Certified Public Accountants are vigorously opposing the passing of these bills.

General

A number of our members are finding it more and more difficult to know where to draw the line between what is accounting work and what is legal work in connection with the considerable amount of new legislation arising out of the war effort.

Questions are continually arising affecting clients in connection with matters such as the Fair Labor Standards Act, wage stabilization, price control, priorities, and the renegotiation of contracts, and the answering of such questions may come very close to what the legal profession claims is the practice of law. Your committee is of the opinion that it is no more possible to draw a strict line between what is accounting and what is law in such questions than it has been possible in the past to draw a similar line in connection with the tax work done by our profession. Our members must be thoroughly familiar with
new legislation which in any way has a direct bearing on their work as accountants, but they must realize that when they undertake to advise that a client is complying with such laws they are treading on dangerous ground.

So far as your committee is informed, there have been no cases during the current year in which a state bar association has complained of the unauthorized practice of the law by a member of our profession. Your committee is of the opinion that friendly relations between the two professions can be maintained best through the cooperation of the state societies with their state and local bar associations and it recommends that this activity be stressed in the work of the societies.

Respectfully submitted,

WILLIAM CHARLES, Chairman
April 16, 1943

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: In accordance with your instructions, the committee on cooperation with Bar Association has had no active program during the last six months, but it desires to report on certain matters of interest to the profession.

The case of Lowell Bar Association v. Birdie T. Loeb et al., is being appealed, and a brief will be filed on behalf of the Massachusetts Society as amicus curiae.

The committee has recently been advised by a partnership consisting of two of our members in Georgia that they are suing a former client for payment of a fee for work done in connection with claims for refund under Section 14 of the Revenue Act of 1936 and Section 501 of the 1942 Act. The defendant in its answer and demurrer states that the services rendered by the plaintiffs constituted the unauthorized practice of the law and that the plaintiffs are therefore not entitled to recover. Counsel for the Institute is furnishing these members with a list of cases and other information as an aid in their case.

The following is an excerpt from the report of the American Bar Association's standing committee on unauthorized practice of the law submitted at the annual meeting of the Bar Association in Chicago, Illinois, August 23-26, 1943:

"Lay Practice in Connection with Income Tax Returns.

"This committee has received many inquiries from various lawyers and bar officials all over the country as to whether or not some action should be taken with respect to the preparation of income-tax returns for compensation by laymen for others and the solicitation and advertising of such business by laymen, banks, and others. The committee had many conferences and gave considerable study to this difficult problem. It is regrettable that from the inception of the income-tax laws the lawyers generally have not taken as much interest in this field of law practice as they might have, and consequently the public has grown accustomed to employ accountants and other laymen. Furthermore, the federal government throughout the period has favored laymen giving aid to others in filling out income-tax returns, and many laymen are enrolled and permitted by the Treasury Department to practice before it. In two cases it had been decided that such lay practice is not in itself unauthorized practice of law. (Merrick et al. v. American Security & Trust Co., 107 F. (2d) 271 (1939); and Groninger et al. v. Fletcher Trust Co., decided April 23, 1942, in the Supreme Court of Indiana.) On the other hand, in two cases accountants had been enjoined from soliciting claims for tax refunds and conducting such proceedings. (Bump v. The District Court of Polk County, 5 N. W. (2d) 914 (No. 45639, Supreme Court of Iowa, 1942) 914; Chicago Bar Association v. United Taxpayers, 312 Ill. App. 243, 38 N. E. (2d) 349 (1941).) Your committee issued an informative opinion on this subject, and recommended to the Association's committee on public relations that it study the problem to see whether some plan could not be adopted whereby the public might be advised that the services of lawyers can and should be enlisted in this field of work, and also that by post-graduate course of instruction, lawyers generally should be given the opportunity to gain more knowledge of the law of taxation and thus be more generally qualified to render public service in this field."

Your committee approved the publish-
ing of the foregoing statement in *The Journal of Accountancy*.

So far as this committee knows, the relations between the various state bar associations and our state societies are on a satisfactory basis.

Respectfully submitted,

**WILLIAM CHARLES, Chairman**

**A. DEWITT ALEXANDER**

September 24, 1943

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**Report of the Committee on Coöperation with Credit Men**

**MIDYEAR REPORT**

**TO THE COUNCIL OF THE AMERICAN INSTITUTE OF ACCOUNTANTS:**

**GENTLEMEN:** During the past year the accounting and credit groups have been striving valiantly and almost exclusively with their respective war-created problems. Naturally, definite restrictions have been imposed on collaboration—but only for the duration and particularly in those districts where coöperation had been an active and routine procedure.

Postwar readjustments will pose mutual problems requiring thoughtful and intelligent consideration. Renegotiations, taxes, inventory compositions and evaluations, readjustments of capital structures, etc., will long remain as some of the problems after the cessation of hostilities. With this in mind, it does not seem premature to suggest that some thought now should be given to the methods of approach to these basic factors and to the creation of the necessary procedural mechanics to implement them.

A year ago a comprehensive long-range program was prepared for the gradual development of cooperative efforts between certified public accountants and credit men—both commercial and bank. This program was furnished to each of the state societies (see pages 110-112 of the Institute's 1942 Yearbook) with the hope that it would be a helpful guide to many of the societies in initiating steps to effectuate closer relationship. Some gratifying responses had been received up to the beginning of our participation in the war. It is altogether possible that upon the resumption of normal collaboration, the more important features of this program may be utilized in the treatment of postwar problems.

A question which arises at this time is whether the subject of accountant and credit-man coöperation is sufficiently important to justify inclusion in the program of the October conference of the Institute of some discussion on the more important phases of present and future planning.

Because of conditions described in this report, and having in mind the increased responsibilities upon principals of accounting firms throughout the country, your chairman, after conferring with the secretary of the Institute, has refrained from initiating new committee projects. For the same reasons, this very brief report has not been circulated among committee members for their approval.

Respectfully submitted,

**SIMON LOEB, Chairman**

**CLINTON W. BENNETT**

**MAURICE L. BLANCHARD**

**WALTER C. BURER**

**JAMES B. CARSON**

**ROLAND J. CHRISTY**

**E. P. ELENNERGER**

**HARRY E. JUDD**

**JAMES A. RENNIE**

**AUGUST J. SAXER**

**EDWARD J. STEGMAN**

**CLARENCE L. STONE**

April 28, 1943

**VIRGIL S. TILLY**
To the Council of the
American Institute of Accountants:

Gentlemen: At the meeting of council at Chicago, October 1st, there was discussion of a report by the committee on cooperation with SEC dealing with the proposed revision of the SEC proxy rules which were at that time under consideration. The question had arisen whether the Institute’s committee should make representations covering the proposed revised rules as a whole, or should confine itself to those sections of the proposed rules which related specifically to accounting and auditing. The council resolved that the committee continue its consideration of the matter, but make no recommendations to the Securities and Exchange Commission relating to parts of the rules other than those affecting accounting and auditing without submitting such recommendations to the executive committee for approval.

The committee on cooperation with SEC, appointed by the president soon after the annual meeting, considered this matter carefully and reached the conclusion that it would be most appropriate to confine its suggestions to those portions of the proposed revised proxy rules which related directly to accounting and auditing. Homer N. Sweet represented the committee at a conference with officials of the Securities and Exchange Commission directly concerned with the proxy rules, and made recommendations which were partly followed in the final draft. These recommendations dealt with nomination of and information about auditors, the liability provisions related to statements or omissions in financial statements, type of financial statements to be submitted, certification by independent auditors, and remuneration for services of accountants.

Respectfully submitted,

John H. Zebley, Jr., Chairman
May 7, 1943

Annual Report

To the Council of the
American Institute of Accountants:

Gentlemen: At the midyear meeting of the council the report of your committee contained a résumé of the relations of the American Institute of Accountants with the Securities and Exchange Commission over the ten-year period since the Commission came into existence and it is accordingly deemed unnecessary to repeat much that was contained in that report at this time.

The midyear report concluded by drawing attention to the amendment of Rule 2-01 of Regulation S-X issued by the SEC as Accounting Release No. 37 and indicated that conferences and correspondence had been carried on with the Commission in an endeavor to clarify the rule to the end that there would be eliminated some of the unfavorable implications which, to many members, it seemed might be otherwise adduced therefrom. All members of the Commission and certain members of its staff were invited to a dinner session of the council for a frank discussion of the problems raised by the amendment to the rule on independence. At the conclusion of the discussion the members of your committee were invited to meet with the Commission in Philadelphia for the purpose of further considering the rule in question.

This meeting was held on May 20, 1943, and one result thereof was Accounting Release No. 44, published on May 24, 1943, which announced the revision of Rule 2-01 of Regulation S-X so that said rule now reads:

“(c) In determining whether an accountant is in fact independent with respect to a particular registrant, the Commission will give appropriate consideration to all relevant circumstances including evidence bearing on all relationships between the accountant and that registrant and will not confine itself to the relationships existing in connection with the filing of reports to the Commission.”

At the same time, the Commission de-
cided to insert the words "For example" at the beginning of the second sentence of subsection (b) of the same rule. The earnest and sincere cooperation which your committee received from the members of the Securities and Exchange Commission cannot be too strongly emphasized in any report dealing with this matter.

While there have been in the past opportunities for members of the profession to meet with representatives of the Commission for the purpose of discussing matters involving principles of accounting and auditing procedures in which a common interest existed, it is believed that a much clearer understanding has been developed during the current year of the position of the accounting profession and of the attitude of the SEC on the subject of independence of auditors and matters related thereto.

The spirit of cooperation between the Commission and the Institute of which there has been abundant evidence this year leads to the belief that the time is here for the profession to endeavor to increase the extent of collaboration with the chief accountant of the Commission by securing an opportunity to confer with him when the apparent need is first noted for a change in such accounting rules as have in the past become the subject of accounting releases.

It appears to your committee that it would be helpful to both the Commission and the profession to have matters on which changes in accounting and auditing principles and procedures are thought desirable by the Commission or its staff brought to the attention of appropriate committees of the Institute, even before opinions relating thereto have been put in the form of draft releases or have become more or less crystallized at SEC. A concurrent, even though not a joint consideration of any point in question, should certainly promote an earlier agreement than has sometimes been possible in the past on the general principles involved, even though uniform application may not always be accepted.

It should be recognized that SEC, through the promulgation of rules and regulations dealing with accounting matters of registered companies, is exerting, knowingly or unknowingly, a very definite influence also on the financial statements of companies whose securities are not registered.

Because of the widespread influence of pronouncements of SEC on accounting matters, the members of the profession should be careful not to allow the increasing burden of present-day problems to interfere with or obscure the opportunity and the responsibility of developing accounting and auditing principles and procedures.

In conclusion, the thought is expressed, with the view of facilitating the collaboration with SEC, that representation on the committee on cooperation with SEC be given one or more members of each of the committees which deal with the subject matter generally referred to the Institute by SEC, such as committees on accounting procedure, auditing procedure, professional ethics, and the executive committee. If this were done and, at the same time, if the committee on cooperation with SEC were kept small in point of numbers, a closer control over all matters under consideration would be possible than now exists with the separate committees dealing individually with SEC.

Respectfully submitted,

John H. Zebley, Jr., Chairman
Samuel J. Broad
Paul K. Knight
Lewis Lilly
Homer N. Sweet

October 16, 1943

Report of the Committee on Coöperation with Stock Exchanges

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: A dinner meeting of the committee on coöperation with stock exchanges was held on July 15, 1943, at the Princeton Club of New York which was attended by the following representatives of the New York Stock Exchange:
Emil Schramm, President
P. L. West, Acting Director,
Department of Stock List
J. E. Gray, Department of Stock List

The meeting was called to consider a letter received from the New York Stock Exchange relating to the question of stock dividends.

The question of stock dividends in general was discussed at some length. In particular, we considered what, if anything, the committee could do to assist the Stock Exchange in discouraging periodic stock dividends, particularly where the market value of such stock dividends was substantially in excess of the current earnings of the distributing corporation. It was pointed out to the representatives of the Exchange that this was primarily a matter of sound business and financial practice and of good public policy rather than a matter of accounting and that the primary responsibility for accomplishing the desired result appeared to us to rest on the Stock Exchange. Mr. Schramm said that he realized this. He wished to be certain, however, that if the Exchange implemented the suggestive part of Accounting Research Bulletin No. 11 by refusing to list additional shares issued as a stock dividend unless the issuance of such shares was in accordance with the suggestions in the bulletin, the accountants would not criticize the acts of the Exchange. We assured him that he need have no fears on that subject as we felt certain that the accountants would stand behind the bulletin.

There was considerable discussion as to how the "fair market value" of the shares to be issued as a stock dividend could be determined. Everyone present recognized the difficulty of such determination. It seemed to be generally agreed that no rigid formula could be adopted for this purpose but that each case would have to be decided on the facts relating to it.

Since this meeting, the committee has continued to be in contact with Mr. West and is assisting him in the preparation of his statement on this subject which the Exchange expects to issue in the near future.

Respectfully submitted,

Warren W. Nissley, Chairman
William H. Bell
Percival F. Brundage
William R. Donaldson
John F. Forbes
Percy M. Hendrie
Walter M. LéClair
Prior Sinclair

September 16, 1943

Report of the Committee on Coöperatives

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The committee feels that its initial duty is to point out to the membership the wide opportunities open to the profession in the rapidly developing coöperative movement. To serve this purpose it is well that some understanding be had of the economic and ethical values attaching to the coöperative movement and of the responsibilities the coöperatives must assume in the formulation and execution of plans and programs for restoration of the post-war economy, if the movement is to justify, to the fullest, the reasons for its existence.

The profession should understand that the coöperative movement is not aimed at the destruction of the system of free enterprise but, on the contrary, is "a practical way of introducing needed correctives to a capitalistic, competitive economy." Producer and consumer coöperation is a method by which individuals may gain, or regain, and assert ownership through joint action with friends, neighbors, and like-minded persons, and by which they may have a voice in what they receive and what they pay. Definitely, the coöperative movement does not seek to create monopoly, but on the contrary seeks to destroy existing monopoly and by its destruction to restore health to the competitive system. The proponents of the coöperative movement point out, and with cogency, that it offers the only practical and workable alternative to
price control. The economic justification for the cooperative movement merits careful study by the profession, for, in a period of revolutionary changes, which seek to modify the old laissez-faire economics and its monopolistic tendencies, it is essential that we return to the free competitive system rather than accept a system of governmental price fixing and the attendant centralization. In this matter the profession should adopt an open-minded, objective, and investigatory point of view.

The political implications of the cooperative movement are in thorough keeping with our democratic doctrine and ideology, in that they recognize the dignity and independence of the individual and his right to do for himself in cooperation with others. Co-operation is not akin to either totalitarianism or communism, in both of which government professes to do things for the people; for, quite to the contrary, in cooperatives people do for themselves.

The two principal groups of cooperatives with which the profession should concern itself are agricultural cooperatives and consumers' cooperatives (urban). Many agricultural cooperatives are large business organizations and would be representative clients in any accountant's office. The consumer cooperatives are numerous and their number is increasing. Both offer attractive fields for the public accountant in his capacity as an auditor and business advisor. It is to the field of agricultural cooperatives which are created by special legislation and endowed with statutory rights and privileges by virtue of their service to agriculture, that the committee wishes to direct the profession's attention.

In approaching professionally the agricultural cooperative field the committee recommends to the practicing accountant the following procedures:

1. He should familiarize himself with the special laws of the state of incorporation and their applicability to the cooperative he is about to audit.

2. A similar study should be made of the several federal statutes, compliance with which will qualify agricultural cooperatives to borrow from the Federal Banks for Cooperatives, and which grant exemption from federal income and capital-stock taxes.

3. He should recognize from the foregoing studies that "co-operation is a distinct method of doing business," usually through the corporate form of organization, which operates for the mutual benefit of its members. These operations are on cost basis after provision for operating and maintenance expenses, and frequently after deductions authorized for expansion and different reserves. The same motives that enter into its formation govern other enterprises, except the benefits accrue to members rather than to investors.

The procedures to be followed in the audit of agricultural cooperatives are set out adequately in an article by Walter L. Bradley in the July, 1940, issue of The Journal of Accountancy, which points out the essential differences between audits of cooperatives and other business enterprises and emphasizes the special responsibilities attaching to the auditors of cooperatives. The following facts should govern the preparation of financial statements and reports:

1. The financial statements must show clearly that the operations are on a cooperative or non-profit basis, and that the favorable balance resulting from operations is not profit but an additional return to patrons for the produce marketed in the instance of marketing cooperatives or reduced cost of supplies in a purchasing cooperative. In fact, in marketing the patron has supplied the product or raw material, processed it and sold it for himself. He has taken the preliminary advances, paid the expenses of processing and operation, and the remainder is the balance of his return. The operating statement should be prepared in such a manner as to show this. The use of the terminology, "income and profit-and-loss statement," should be avoided, and the preferable "operating statement" or "statement of operations and margins" substituted.

2. The favorable tax status of farmer cooperatives is under close scrutiny by federal income-tax authorities, and it is essential that the operating statements reflect the cooperative nature of these operations.

3. Operating methods, articles of incorporation, by-laws, and marketing or membership agreements must conform to cooperative theory, and the auditor's reports must be framed with these restrictions and limitations in mind.
A new problem in the form of price renegotiation now confronts the larger agricultural coöperatives which have been big-scale suppliers of the armed services and lease-lend. The primary problem in the preparation of financial and operating statements to be submitted to renegotiation boards, is to reemphasize the non-profit nature of the coöperative organizations and to establish clearly that any excess of sales proceeds over manufacturing, conversion, and marketing expenses is realization for product to the producer, and not a commercial profit.

Although the committee on coöperatives is a new addition to the standing committees of the Institute, and its activities as an organized committee necessarily have been limited, its members have rendered a measure of public service to the coöperatives and to our own profession in this particular field which seemingly would justify the committee’s founding and continued existence. Its chairman has served as a consultant in coöperative matters to other members of the profession in the western part of the country. Mr. Bradley has served throughout the year as an active member of the standing committee on Legal and Tax Problems of the National Council of Farmer Coöperatives, and further has demonstrated extensively the interest of our profession in the field of coöperative accounting by frequent meetings with various officials of the Farm Credit Administration in consultation on their problems. The committee may also take credit for numerous platform appearances, and written articles published during the year, in furtherance of its objectives.

There is a wide field of interesting and essential activity open to this committee. In the short span of its existence only a mere beginning has been made. Studies and surveys in terminology and forms of statements particularly applicable to the coöperative form of enterprise must be made, as well as further studies of auditing procedure applicable in the particular circumstances of the coöperative type of business, and the findings of all these studies made available to the profession.

It is the responsibility of our profession, and of the Institute as the organized agency of the profession, to take the leadership in solving the accounting problems of this rapidly expanding mode of enterprise. Its needs are patent, its call is urgent, and there is ample evidence that attempts at solution may stem from less qualified sources, should this professional body fail to embrace its opportunities for service and mutual benefit.

The leaders of coöperative enterprises recognize the important role which the accounting profession plays in their steady and continued march of progress. It is incumbent upon our profession to accept the responsibility which they are willing to assign to us and to qualify ourselves for distinguished service in this special field of endeavor.

The committee must point the avenues of service to our profession and be active as a liaison agency between our profession and the organized units of committees of the coöperatives. Therein lies the greatest mutual benefit to all concerned.

As stated at the outset, the profession should devote its best attention to this growing field.

Respectfully submitted,

LEWIS LILLY, Chairman
CLARENCE H. BENTON
WALTER L. BRADLEY
JOHN J. HARRINGTON
WALTER A. MUSGRAVE
ROBERT A. PERSINGER

October 14, 1943
Report of the Committee on Coordination of State and National Organizations

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The undersigned committee was appointed in accordance with a resolution of the council of the Institute last May, as a result of a recommendation of the Advisory Council of State Society Presidents. The committee was given the duty of studying the whole question of how the activities of the state and national organizations might be better coordinated, and how closer cooperation between them could be achieved.

The committee early in the summer received from the secretary of the Institute, at the chairman's request, various factual data and suggestions bearing on the problem. A meeting of the committee was held on Sunday, October 17th, at which all the members of the committee were present.

It was unanimously agreed that no plan could be developed for early consideration without the benefit of the opinions of a large number of members of the profession who are familiar with the problem. It was, therefore, resolved that a letter should be sent to every state society president, and every member of council of the Institute, asking his considered opinion, without any specific suggestion by the committee, as to what can be done to strengthen the professional accounting societies, and what can be done to facilitate closer collaboration between the state societies and the Institute. This procedure, the committee believes, would provide a better indication of just what the profession desires than could be obtained by submitting any tentative plan for criticism. When replies to this letter have been analyzed, the committee will be in a better position to formulate specific suggestions for presentation to the council of the Institute—perhaps at its meeting in May, 1944, or at the time of the annual meeting in the fall of next year.

Meanwhile, it may be stated that substantial progress has been made in cooperation between the Institute and the state societies. This is evidenced by the fact that the Institute has increased its membership more than one hundred per cent in the past seven years, with the goodwill and support of the state societies. In the committee's opinion, the Advisory Council has served as an effective instrument in bringing to the Institute's attention problems which the state societies wished to have considered, and also in coordinating the thinking on matters of policy of those charged with the administration of both the state and national organizations.

From the preliminary exchange of views among the members of this committee, four of whom have been presidents of their state societies and two president of the Institute, it appears that the principal reason why this subject has arisen for consideration at this time is the fact that most state societies are now evincing an honest attitude of self criticism as to the effectiveness of their functioning. In some instances difficulty has been experienced through lack of funds adequate to employ paid staff assistants; in others, through the division of the membership among two or more cities. In the latter case, local chapters have sometimes carried on their activities more or less independently of each other, and of the state society organization.

Your committee believes that there would be definite advantages to every member of the profession if the scope of state society activities throughout the country could be materially enlarged. There is a tremendous amount of educational work to be done. The standing of the profession in every community could be advanced by what may be described as public-relations work in that community. Legislative problems could perhaps be dealt with better if experiences of other states were readily available, and if proper groundwork could be laid well in advance for any legislative program.

Educational work, the improvement of professional standards and of public relations, and legislative activity require much thought, planning, and hard work. Voluntary officers and committees, often residing at great distance from one another, find it
most difficult to keep such a program moving continuously at an effective level.

It has been suggested in the committee discussion that the Institute might set up a department which, to some extent at least, might serve as a secretariat for every state society. Such a department could maintain lists of all state-society and chapter officers and committees. It could cooperate with each state society and chapter officer and committee and assist in developing suitable programs of activity for the year of his incumbency in office. It could send information on various technical and professional subjects to the individual officer and committeeman most concerned. It could make available to all state society officials the experiences of others in dealing with similar problems. It would also, of course, keep appropriate state society officials informed of everything the Institute had done or was doing which related to their work. While much of this type of service would have to be rendered by correspondence, it might be supplemented by visits by an Institute staff member to the state societies to deal with specific problems, and keep the cooperative machinery in good working order. As time went on, such a department of the Institute might well assemble sufficient data regarding state society problems and procedures as to permit it to answer almost any question which state society officers or committeemen would be likely to raise, thereby enabling them to render better service to their members.

As an experiment, the suggestion presented might indicate the direction in which further steps toward coordination of state and national activities might be most likely to be successful. The project would involve the digesting of quantities of information, and conducting much correspondence. It would require the full time of a competent staff assistant, and probably that of two or three typists and assistants. At the present time the budget of the Institute could not absorb the expense of such an undertaking, which with allowances for travel might amount to some $15,000 a year, without abandoning some of its present activities. Perhaps the service could be financed, initially, in part by the Institute and in part by the state societies at the nominal rate of, say, $1.00 a member.

For reasons already stated, your committee is not prepared to offer any specific recommendations at this time. By securing and studying the views of state society presidents and council members during the coming year, this committee, or its successor, should be in a position to offer tentative suggestions at a later date.

Respectfully submitted,

GEORGE S. OLIVE, Chairman
PARRY BARNES
JULIAN A. HAWK
FREDERICK H. HURDMAN
J. ARTHUR MARVIN

October 17, 1943

Reports of the Committee on Federal Taxation

MIDYEAR REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on federal taxation has held two meetings during the first half of the current year, and members of the committee have had numerous conferences with officials of the Treasury Department, Bureau of Internal Revenue, and the United States Tax Court, in Washington, D. C.

EXTENSIONS FOR FILING TAX RETURNS

On January 11th, the chairman of the Institute’s committee, together with Walter A. Cooper, William L. Ashbaugh, and James A. Councilor, members of the committee, as well as Maurice Austin, a member of the Institute’s committee and chairman of the New York State Society tax committee, J. K. Lasser, chairman of the New Jersey Society tax committee, and
F. G. Hamrick, chairman of the Controllers Institute of America tax committee, conferred with Treasury officials, including the Assistant Secretary of the Treasury, on the question of extensions of time for filing tax returns. The representatives of the accounting groups filed an official letter proposing conditions under which the Treasury might instruct collectors to grant sixty-day extensions freely on the request of taxpayers or their accountants.

On February 11, 1943, Norman D. Cann, Acting Commissioner, addressed a letter to the chairman of the committee outlining proposed instructions to be issued to the collectors authorizing the granting of extensions of time for filing tax returns. Acting Commissioner Cann's letter of February 11th, and a letter dated February 27th, produced over the signature of the chairman of the Institute's committee, giving further explanation of the procedure to be followed in obtaining extensions, were sent by first-class mail to each member and associate of the Institute. A small number of members complained that supplying the information requested to accompany tentative returns as a basis for extensions would create a substantial burden. Many members wrote in, congratulating the committee on arrangements that had been effected and, on the whole, the committee believes that the Commissioner's cooperation was of great assistance to the profession and to taxpayers.

Practice before Tax Court

On January 12th, the chairman of the Institute's committee, with counsel for the Institute, had a two-hour conference with Presiding Judge Murdock, of the United States Tax Court, and his associates, constituting a committee of the Tax Court, which had drafted a proposed rule governing admission to practice before the court under the new provisions of the revenue law adopted last fall, which provide that no person shall be barred from practice before the court because he is not a member of any particular profession. The rule provided that all persons presently enrolled to practice will continue to enjoy that privilege but in the future all applicants shall take an examination except that lawyers might be exempted in the discretion of the court. The Institute's representatives argued that accountants be permitted to enjoy the same exemption, or in some way be continued in a status the same as that of attorneys.

Following a meeting of the committee in New York, on January 24th, the chairman of the committee paid a visit to Washington, and again discussed the proposed rule of practice with Presiding Judge Murdock of the Tax Court.

Representatives of the committee on federal taxation and J. Arthur Marvin, chairman of the Advisory Council of State Society Presidents, met with the executive committee in New York to discuss the proposed rules. President Olive later went to Washington and conferred with Judge Murdock. In spite of the sympathetic understanding by the Court of the Institute's position, the Court felt that it could not extend to accountants the same privileges extended to members of the bar. The proposed rule has been adopted and published.

Members of the committee have given consideration to the matter of an amendment to the Code that would restore to members of the Institute the relative position they enjoyed before the Board of Tax Appeals.

Fiscal Year Changes

The committee continues to give its attention to the matter of fiscal-year changes. It is the committee's opinion that the Bureau has no fixed policy against changes of fiscal-year dates, but that the Bureau does wish to be satisfied that a proposed change, if granted, will put the applicant on a natural business year, and that its adoption was not motivated to effect saving in taxes.

Extensions for Filing Claims under Section 722

Following the meeting in New York on January 24, 1943, the committee initiated action to obtain extension of time for filing claims under Section 722 of the Internal Revenue Code. On February 3, 1943, the chairman addressed letters to J. Cheever Cowdin of the National Association of Manufacturers, and Weston Vernon, Jr., chairman of the Section of Taxation, American Bar Association, seeking their respective views and cooperation.
Mr. Cowdin replied by telephoning from New York advising that his Association would cooperate to the full extent. Mr. Vernon expressed his approval by letter, which included the statement, “regardless of what decision is made as to Section 722, I should be very glad to receive from you any recommendations regarding changes in the Revenue Law which may be under consideration by your committee on federal taxation.” Maurice Austin, a member of our committee and chairman of the New York State Society’s committee, deserves special mention for his accomplishments resulting from his discussions with Treasury and Bureau officials and Colin F. Stam, Technical Advisor to the Joint Congressional Committee on Internal Revenue Taxation. H. J. Resolution 100 has been passed and the time for filing claims has been extended to September 15, 1943.

Federal Tax Recommendations

On behalf of the American Institute of Accountants, Walter A. Cooper, member of the committee, presented a statement endorsing the “pay-while-we-earn” principle before the Ways and Means Committee of the United States House of Representatives, February 10, 1943.

One of the major projects of the committee since its first meeting has been the drafting of proposed recommendations to the Ways and Means Committee, to be presented at the Committee’s next hearing. A draft of the recommendations, which includes several of the recommendations made last year which were not incorporated in the 1942 Revenue Law, is now in the hands of the committee.

Other Committee Activities

The committee recommended to the executive committee of the Institute that a technical assistant be employed on a full-time or part-time basis, to aid the committee on federal taxation, if a suitable person could be found at a reasonable salary.

Members of the committee on federal taxation have contributed the following articles to The Journal of Accountancy during the current fiscal year:

Maurice Austin: “Effect of Excess-Profits-Tax Law on Current Reorganizations”


There have been introduced in the 78th Congress several of the so-called “administrative bills” which would restrict to members of the bar the right to represent others before government agencies. These bills are:

H.R. 94, introduced by Representative O’Toole, of New York.

H.R. 673, introduced by Representative Walter, of Pennsylvania.

S. 323 and S. 324, introduced by Senator Hatch, of New Mexico.

(The Hatch bills are similar to H.R. 816, introduced by Representative Celler, of New York.)

These bills are being carefully watched by Institute’s counsel, and the state society presidents have been informed of the existence of the bills. So long as the bills remain dormant, the committee recommends that no action be taken concerning them.

Because of the very nature of the committee’s work, it is necessary that decisions be reached within a limited time and without the benefit of full discussion with members of council and state society presidents. It therefore would be most helpful to the committee to receive through discussion from the floor at this meeting, the views of those present on matters of federal tax policy with which the committee may be confronted in the future.

Respectfully submitted,

J. A. PHILLIPS, Chairman

May 1, 1943
Reports of Committees

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: Your committee on federal taxation submits this report on its activities during the last half of the Institute's current year.

Legislation

Since our report of May 1, 1943, much attention has been given to matters relating to legislation. We held a meeting at the office of the Institute, on August 6, 1943, primarily for the purpose of considering proposals for changes in technical provisions of the Internal Revenue Code. We reviewed our tentative draft of recommendations and gave careful consideration to the many suggestions submitted by others. Particular consideration was given to a communication from Colin F. Stam of the Joint Committee on Internal Revenue Taxation of the Congress, inviting suggestions of members of the Institute looking toward simplification of the internal revenue laws in accordance with a proposal put forward by Senator George of the Senate Finance Committee. Based on our study of the suggestions made, we completed a report directing attention to numerous needed changes in the law. This report was adopted with the understanding that future recommendations on matters of policy or technical questions might be made when more detailed information concerning proposals for new tax legislation became available.

The present report contains twenty individual recommendations for change and includes technical and procedural matters, as well as more general recommendations, such as: (1) consolidation of all federal taxes on corporate income into a single tax; (2) computation of tax deductions in accordance with generally accepted accounting principles consistently followed; (3) repeal of the capital-stock tax.

The chairman submitted the report to Stanley Surrey, Tax Legislative Counsel of the Treasury, on August 11, 1943. Although we cannot state as yet what action will be taken on our suggestions, it is noted that Mr. Surrey has been giving attention to the report and has requested eight additional copies. Copies have also been distributed to Colin F. Stam, Chief of Staff of the Joint Congressional Committee on Federal Taxation, Randolph E. Paul, General Counsel to the Treasury, Timothy C. Mooney, Deputy Commissioner of Internal Revenue, the National Association of Cost Accountants, the National Association of Manufacturers, and the Controllers Institute of America.

In respect of Mr. Stam's letter inviting suggestions, the committee endeavored to elicit as many constructive suggestions from the membership group as possible and to that extent an editorial designed, for this purpose appeared in the September, 1943, issue of The Journal of Accountancy. In addition, a circular letter was distributed to several hundred members who had shown previous interest in tax matters.

We have had the replies analyzed by a technical assistant engaged for the purpose. The report on this analysis is at present being studied and, on the basis of the accumulated data, the committee is preparing to approve specific recommendations to Mr. Stam.

Colonel Robert H. Montgomery's Proposal

The committee, which has always been interested in any program looking to a change in policy of the Treasury Department to permit greater flexibility and to eliminate the present legalistic and highly technical approach to income determination, was happy to give consideration to Colonel R. H. Montgomery's circular letter dated June 25, 1943, which was distributed to the Institute membership.

We concurred in his observations on the unsatisfactory aspects in the present system of levying and collecting taxes and considered his proposal for a change in the method of examination of corporate tax returns.

In view of the interest evidenced by over 600 replies from members which were received containing numerous suggestions, we have had the replies analyzed by a technical assistant. The study of over 100 pages which has been prepared on the basis of the analysis is being considered by the committee. It is believed that many helpful
suggestions contained in this report can be incorporated in our recommendations to Colin F. Stam. The study has already been referred to the executive committee and it is our understanding the president of the Institute will informally discuss it with representatives in the Treasury office.

We considered Colonel R. H. Montgomery's specific proposal that the Bureau of Internal Revenue accept as correct and as the basis of the tax, the net income as shown by corporate books when certified by an independent certified public accountant, except for fraudulent or grossly negligent returns. We concluded that the question of the extent of responsibility which the certified public accountant should assume in certifying reports for tax purposes is part of a fundamental policy involved in certifying reports (for example, termination of war contracts). Therefore, this question has been given to the executive committee for consideration.

**Administrative Reforms**

Our committee has been actively engaged in presenting the position of the business concern and the accounting profession to the Treasury Department and the Bureau of Internal Revenue on pertinent matters of administrative procedure involved in (1) changes to natural fiscal years, (2) extensions for filing Section 722 claims, (3) liberal extensions for filing income-tax returns, and (4) the practice of certified public accountants before the United States Tax Court. We feel that much has been accomplished to achieve understanding of both sides of the problems and anticipate the Treasury's cooperation and some modification in the Bureau's attitude in the future. We feel that the role that the committee can play in such matters will prove beneficial and helpful to all concerned. The comments below show the development on the various issues.

**Natural Fiscal Year Changes**

Conferences have been held with Bureau officials extending over the past five or six months on the question of taxpayers' changes to natural fiscal years. Our chairman had a recent conference with these officials in Washington and reported that they stated if a satisfactory amendment to the Code were proposed and adopted protecting the government against loss of revenue, the Treasury would freely grant applications for change. The committee was invited to draft such an amendment but after consideration deemed this to be inappropriate. It has gone on record, however, as willing to review and support any fair and just amendment which the Treasury may propose.

**Extension for Filing Section 722 Claims**

In our midyear report we indicated that the committee played an active role in accomplishing the extension of time for filing Section 722 claims to September 15, 1943. Since then actual experience with the preparation of these claims indicated the need for further substantial extension. Your committee kept in touch with the matter and with the appropriate Treasury and Bureau officials.

On August 27, 1943, the committee addressed letters to Chairman Doughton of the House Ways and Means Committee and Senator George of the Senate Finance Committee urging that the Congress should extend the time for filing claims under Section 722 of the Internal Revenue Code. Copies of these letters were mailed to Mr. Stam, and to representatives of the Treasury and the Bureau of Internal Revenue. Replies received favored the proposal. On August 27, 1943, Randolph E. Paul, General Counsel to the Treasury Department, announced his recommendation to the chairmen of the congressional committees that the filing date of these claims be extended so as to place them on the same basis as refund claims generally, and at the same time reported the concurrence of the committee chairmen in this recommendation. At the time of writing this report, a joint congressional resolution embodying the aforesaid extension has been reported out of the House Ways and Means Committee and it appears that such legislation will soon be enacted (H.R. 3308; H.R. 3363).

We have also noted that in the October 1943 issue of The Journal of Accountancy an editorial appeared suggesting that the Institute membership exchange statistical and financial data regarding Section 722 claims. It was proposed that the library at the Institute be a depository for such
information where it would be available to the members. Replies to this editorial are now beginning to come in.

Extensions for Filing Income Tax Returns

Members of the tax committee have been active in conferences with the Treasury in endeavoring to establish the practice of freely granting extensions of time by pointing out the business circumstances requiring such extensions. On August 10, 1943, we discussed with Mr. Mooney, Deputy Commissioner of Internal Revenue, Income Tax Unit, the Department’s experience in respect of its liberal policy in granting extensions for filing 1942 corporate returns, forms 1120 and 1121. The limited number of final reports of Collectors, considered in the Commissioner’s office at the time, precluded Mr. Mooney from expressing a fixed opinion. He stated that the reports examined indicated an entirely satisfactory experience. The committee believes that a liberal policy of granting such extensions will be continued.

Practice before the United States Tax Court

Our committee has throughout the year given careful consideration to the status of practitioners before the newly created United States Tax Court, formerly known as the Board of Tax Appeals. Your committee is continuing to give this matter its attention, with a view to taking or recommending such action as may be appropriate.

TECHNICAL ASSISTANT

The work and importance of the committee on federal taxation has grown and developed to such an extent that the committee felt the need for a technical assistant who would handle the administrative and correspondence duties promptly and expeditiously, and would prepare studies and reports on designated topics. Miss Rebecca Newman, a graduate of Columbia Law School and a member of the New York State Bar, who prepared two reports referred to above, has been engaged on a six-months trial basis. It is believed that such an assistant will permit a long-term, continuous, and well integrated program for the tax committee.

CONCLUSION

We are happy to indicate the satisfactory progress in our relations with the Treasury and the increasing recognition of the value of our services on the part of government officials. We quote from a letter received August 16, 1943, from Norman D. Cann, former Assistant Commissioner of the Internal Revenue Bureau:

"Before leaving for my new assignment I wish to acknowledge my deep appreciation for the cooperation extended to me by the Institute and its tax committee. I am sorry that we have not been able to accomplish more, but war, of course, has interfered, and there will be further opportunity for extensive overhauling of our tax laws and their administration in the years to come. In that event I hope that I may again have the opportunity to work closely with you and the official committees of the Institute."

The membership group has become more and more aware of our role and numerous suggestions and comments have been received and reviewed from them.

The importance of the work in the tax field has been further recognized by the Institute through the establishment of a monthly tax department in The Journal of Accountancy, known as the Tax Clinic and edited by J. K. Lasser. This forum is proving highly beneficial for the exchange of ideas about tax problems with emphasis on points of greatest general interest.

Respectfully submitted,

J. A. Phillips, Chairman
A. DeWitt Alexander
William L. Ashbaugh
Maurice Austin
William L. Clark
Walter A. Cooper
James A. Councilor
Harry E. Howell
Charles Melvoin
Robert Miller
Troy G. Thurston
Louis C. Weiss

October 9, 1943
Report of the Committee on Governmental Accounting

ANNUAL REPORT

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The municipal phase of governmental accounting has had a great development within the past ten years. We continue to work very closely with the finance officers; the National Committee on Municipal Accounting continues to carry on its important work; and the various books and pamphlets published by that committee will be revised in the near future, based on experience by practically every level of government, from the state down to school districts.

The members of the American Institute of Accountants on that committee and its advisory groups have played in the past, and will continue to play, a very important part in these revisions. We have an excellent relationship with the finance officers, and they do not undertake anything without first consulting us about it.

The chairman of your committee has served for the past three years on a committee of judges to make awards to those units of government that have made the greatest contribution in the field of governmental accounting. We have had an opportunity, in making these awards to examine and study the fine programs that have been conducted throughout the United States.

Your chairman has recently been asked to act as chairman of a committee to study the whole function of the finance officers of the municipal government. It will give us a marvelous opportunity to study what is being done and what has been accomplished, and an opportunity to establish fine relationships with outstanding finance men in our various local government setups. For the past several years succeeding chairmen have shown an interest in accounting problems in the federal field. These men have had conferences with representatives of government and, within this last year, your present committee has met with these various representatives.

Recently, the secretary of the Institute and one of the assistant secretaries met with us in Washington for the purpose of making arrangements for a conference on Federal Government Accounting to be held in New York December 2nd and 3rd. The Treasury Department, General Accounting Office, and Bureau of the Budget are enthusiastic about cooperating with us in arranging what we really hope will be more of a round-table discussion of the problems and will lead to a reconciliation and crystallization of views held by the best informed people in this field.

We think from such a conference we will develop facts which will enable us to present to council the recommendation and suggestion that an aggressive and constructive program be undertaken to clear up what we believe are weaknesses in the entire accounting and auditing structure of the federal government. We also hope to get a clear definition of what the General Accounting Office is doing, and possibly to show that it is more of an administrative body as it is now functioning and that it is not protecting the citizens or furnishing Congress with the type of auditing to which it is entitled. The General Accounting Office is more and more making the original administrative determinations, and, therefore, is not in a position to audit that which it first determines shall and can be paid. We hope the conference will at least provide us with the basis on which we can sponsor an aggressive program designed to lead ultimately to legislation and amendment to the budget act of the federal government.

Respectfully submitted,

GEORGE P. ELLIS, Chairman
FAYETTE H. ELWELL
G. CHARLES HURDMAN
ERIC L. KOHLER
ELTON C. LOUCKS
LLOYD MOREY

October 18, 1943
Reports of the Committee on History

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: During the current six months your committee on history has secured copies of the following:

A paper by Mr. Roy C. Brown, entitled "Early History of Accounting in Mississippi";

A booklet, "Public Accountancy in Delaware," published in 1937 by Goldey College;

A "Directory of Early American Public Accountants," by Professor A. C. Littleton. Reference was made to the preparation of this work in the committee's report of April 23, 1942.

The committee has had recent advices that some progress has been made in gathering historical data of the profession in the states of Alabama, Illinois, Massachusetts, Nebraska, Tennessee, Texas, and Wisconsin, but work has been suspended for the time being in one or two instances. It is expected that the data for Nebraska and Tennessee will be available in the very near future.

The presidents of three state societies report that nothing has yet been done in this connection. Replies have not been received as yet from twenty-three other societies to letters of inquiry sent on October 26, 1942, and April 1, 1943.

Respectfully submitted,

T. Edward Ross, Chairman
April 22, 1943

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: Supplementing the report of April 22, 1943, your committee on history notes the receipt of a paper entitled, "Public Accounting in Tennessee," by Harry M. Jay (7 typed pages), and a copy of a booklet, "Life Sketch of Edward Scott Thomas," by Helen W. Thomas. Mr. Thomas was one of the organizers of the Ohio Society of Certified Public Accountants, and for many years was a member of the State Board of Accountancy of Ohio.

The completion of other data under preparation has been delayed in some instances by the pressure of professional engagements.

Respectfully submitted,

T. Edward Ross, Chairman
October 5, 1943

Reports of the Committee on Membership

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: On behalf of the committee on membership, it is a pleasure to report that in spite of war and preoccupation of members with matters of far greater moment than membership, the Institute has continued steadily to grow in size and is larger today than at any time in the past. The present membership of 6,877 represents a net gain of 693 over the membership a year ago. Five hundred thirty applications have been received since September 1, 1942, representing an increase of 207 over the number filed during the corresponding period a year ago.

With no intent to minimize the excellent work of the 143 members of the committee, there is evidence that many new members have sought admission on their own initiative. This circumstance, in which young certified public accountants write to the Institute for application forms, is in part heartening, and yet it also serves as a challenge to all members, since it is evidence that these new members of the pro-
profession have not been extended a personal invitation to apply for admission. It is gratifying to find that young certified public accountants are eager to share the responsibility of supporting their state and national professional societies and recognize that through membership, they may be kept currently informed of the important developments that vitally concern every professional accountant.

A few years ago, a typical Institute membership ballot for admission to the Institute would show about 80 per cent of the names for admission to full membership and 20 per cent for admission as associates. Today, more than one-half of those admitted are associates. The definite trend toward application of younger men for admission to the Institute is shown in the following table:

Average age at which new members were admitted to the American Institute of Accountants

<table>
<thead>
<tr>
<th>Age Group</th>
<th>College Graduates</th>
<th>Non-College Graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-24 years</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>25-29 &quot;</td>
<td>92</td>
<td>12</td>
</tr>
<tr>
<td>30-34 &quot;</td>
<td>92</td>
<td>28</td>
</tr>
<tr>
<td>35-39 &quot;</td>
<td>73</td>
<td>32</td>
</tr>
<tr>
<td>40-44 &quot;</td>
<td>42</td>
<td>21</td>
</tr>
<tr>
<td>45 and over</td>
<td>39</td>
<td>27</td>
</tr>
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</table>

These figures indicate that there are still many certified public accountants who are not members of their national professional body. In spite of this fact, it does not seem proper during these strenuous days for any organization to devote the substantial amount of time or energy necessary to undertake a nation-wide, organized effort to bring in new members. It is important, however, that new blood be brought into the Institute and that a strong national body be maintained to cope with the increasing problems that confront the profession.

Too frequently, I am led to believe, the subject of membership is passed over lightly by the leaders of our profession, with the thought that it is one of those subjects that takes care of itself so long as the Institute serves the profession well. There is a large membership committee with excellent geographical representation to look after the membership problem. Then, too, it is a trait developed early in childhood to gloat over the size and im-
portance of anything with which one may be associated. For mature professional men, wrestling with problems vital to the war, thoughts concerning membership seem out of place. Admitting that these views have merit, I believe they are overshadowed by the fact that the future of our profession will be determined largely by the young men who are coming into it and the professional stature of the individual certified public accountant. The day may not be far off when some of our lawmakers may suggest that persons on the government payroll are best able to perform accounting services to private enterprise. This eventuality can be met most ably by continuing to increase the value to the public of the services the certified public accountant renders. Membership in the American Institute of Accountants, which automatically brings to a certified public accountant The Journal of Accountancy, research and auditing procedure bulletins, access to the thousands of publications in the Institute's library, and association with his fellow practitioners, cannot help making it possible for him to serve his clients better. Without qualification it may be said that the best interests of the certified public accountant, the profession, and the public are served when professional men through association with their national and state societies are currently informed of all important matters pertaining to their profession.

Because those gathered here today, constituting the governing body of the Institute, presidents of state societies, and committee chairmen, have the best interests of the profession at heart, I have no hesitation in requesting your cooperation in extending to well-qualified certified public accountants on your own staffs or whom you may know in your own communities, a cordial invitation to apply for admission. For your convenience, the secretary will send within the next few days, a supply of application forms and outlines of admission requirements.

With your wholehearted cooperation, I am sure that the Institute will continue to have a strong and healthy growth during this war period, and will be well prepared to meet the problems of the postwar era.

Respectfully submitted,

L. C. J. YEAGER, Chairman
May 1, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The membership of the American Institute of Accountants has continued to grow steadily throughout the year, to reach an all-time high of 7,137, a net growth of 684 for the year.

During the fiscal year 1,100 applications for admission were filed and during the past three months over 1,300 requests for application forms were received. This unusually large number of requests for application forms and information regarding membership resulted in part from a letter sent by the president of the Institute in June to all non-member certified public accountants, describing the work and services of the national professional accounting body.

The work of the 143 members of the committee on membership has been furthered by the cooperation of state society presidents and many individual members of the Institute. The trend toward admission of larger numbers of younger men assures the virility of the Institute. Progress is being made toward the day when it will become normal procedure for the young certified public accountant to join the American Institute of Accountants early in his professional career.

Institute services to the accounting profession and membership growth complement each other. The more the Institute can contribute toward solving the problems that confront the public practitioner, the more indispensable membership becomes. It has been for many years the policy of the Institute to devote its resources to serving its members rather than to accumulate substantial funds for the needs of some remote day. This policy has undoubtedly contributed to the steady growth in membership.

To my knowledge, the Institute has
never undertaken a membership campaign. With the maintenance of high admission standards; with unity of membership resulting from the requirement that all applicants possess a CPA certificate, and with a record of ever-increasing service to the profession, the Institute should never need to undertake a membership campaign. Membership is not something to be sold, but something for the well-qualified certified public accountant to attain as evidence of his professional stature. There rests with the membership committee the responsibility that all certified public accountants know of the Institute’s work and of the benefits and responsibilities of membership. The committee’s work can, however, be effective only when supplemented by the assistance of each member and associate who is acquainted with certified public accountants in his own community and is in a position to extend to them a personal invitation to apply for admission. With the continued assistance of the membership in the work of the committee, the Institute will continue its wholesome growth during the coming year.

Respectfully submitted,

L. C. J. Yeager, Chairman
September 1, 1943

Report of the Committee on Natural Business Year

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The program of development of the natural business year campaign by your committee and state society committees has been considerably handicapped in the past year by the war. Since, for the time being, so many companies are engaged in production for the armed forces and for that reason are at the peak of production at all times and seasons of the year, it has not been possible to engage the attention of executives with the natural fiscal closing date proposal.

Members of the profession in many cases have hesitated to suggest the use of natural business years by clients because of a doubt as to the attitude of the Bureau of Internal Revenue in the matter of granting permission to change closing dates. The impression became widespread that the Bureau had decided to refuse permission, as a matter of policy. This impression first was caused by the fact that, in a number of cases of applications from companies in the department store field, permission to change was denied.

Cooperating with your committee, the secretary of the American Institute and the chairman of the committee on federal taxation discussed this general situation with officials of the Bureau of Internal Revenue. As a result of these discussions, your committee is under the impression that the policy of the Bureau has not been changed, and that applications for changes to fiscal years will continue to be granted when they are believed to be justified. Your committee further understands the position of the Bureau to be that it will not grant permission for change when it believes that the sole or principal reason for a request is the hope of reducing taxes.

Your committee has been informed that it is the desire of Bureau of Internal Revenue officials to discuss this whole question with the American Institute, and the suggestion has been made in the Bureau offices that the chairmen of your committees on federal taxation and natural business year participate in the discussion. Arrangements have been made for such a meeting, and an informative memorandum following it will be issued to the members of the American Institute. The conception of your committee on natural business year as to the most important point to be brought home to the Bureau of Internal Revenue is the fact that changes to natural business years are justified when they meet the requirements and needs of sound business management and accounting, even if tax advantage does lie in some cases.

The general situation with respect to the natural business year campaign is
far from discouraging. The Institute staff still receives inquiries as to suggested closing dates both from members of the profession and from executives. Several state societies have shown in their correspondence that they are actively doing what they can to promote this proposal.

There is evidence that, despite the preoccupation of war, a number of companies changed to the natural business year basis in the first quarter of this year. The total of changes for the period is 497, the lowest point to be reached in the first quarter of any of the last five years. The record shows 647 changes in January, February, and March of 1939; 769 changes in the first quarter of 1940; 683 changes in the like period of 1941; and 1033 changes in the first quarter of 1942. These figures are taken from monthly reports furnished by the Commissioner of Internal Revenue.

Your committee takes from these figures that, while there is a drop in the total for the first quarter of this year, there still was an encouraging total of changes. Without the war, it is safe to assume, the level of changes for the first quarter would have remained high.

It is the desire of your committee to do everything possible to keep the advantages of the natural business year always in the minds of businessmen and members of the accountancy profession. It respectfully requests suggestions from council. Shall it take from granted a minimum of interest in natural business years in these times when business is so actively concerned with the war? Does the council agree that for the present the committee should confine its efforts to keeping up the interest of accountants in the natural business year, and to furnishing to members of the Institute and state society committees such information as will be helpful in at least keeping alive an active interest in the proposal until the end of the war presents an opportunity for renewed active promotion?

Respectfully submitted,

HARRY L. OPPENHEIMER, Chairman
May 1, 1943

Reports of the Committee on Publication

MIDYEAR REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Publications of the American Institute of Accountants, in these war years, reflect a single major purpose—helping members of the accounting profession to make the most effective contribution to the winning of the war. This purpose is revealed by the titles of articles published in The Journal of Accountancy since the beginning of the Institute's current fiscal year on September 1, 1942—Mechanics of Renegotiation; Determination of Contract Costs by the War Department; Some Special Features in the Audit of War Contract Costs; Accounting Aspects of the Priorities System; War Contract Termination; Adaptation of the Income Statement to Present Conditions; The Controlled Materials Plan; Limitation Order L-219. Out of sixty-two signed articles in The Journal from September, 1942, through May, 1943, twenty-seven are definitely war articles.

Journal editorials have been directed toward the same objective. Topics discussed in the current fiscal year include Audits under Army Contracts; Progress in Renegotiation; Termination of War Contracts; Omission of Physical Inventories in War Plants; Accountants in Government Service; Accountants and Salary Stabilization; Accounting Manpower; Accountants under Selective Service. Out of sixty-two editorials published from September through May, thirty-two are war editorials.

Other sections of The Journal, also, have contributed to the war program. In the department entitled “Official Decisions and Releases” (formerly “Findings and Opinions”), The Journal has presented for its readers official texts or excerpts from public documents including a War Department Memorandum on Administrative Audit of Cost-Plus-a-Fixed-Fee Contracts; Cost Interpretations Applicable to Audits of Cost-Plus-a-Fixed-Fee Sup-
ply Contracts, issued by the Fiscal Division of the War Department; the War Department's Industrial Property Accounting Manual; the Truman committee report; Activity and Occupation Bulletin No. 35, issued by Selective Service; ordinance procurement instructions applicable to administrative audit of termination claims of fixed-price supply contractors.

On several occasions, through the cooperation of government officials, advance drafts of important documents have been made available to *The Journal* for publication immediately upon their release. *The Journal of Accountancy* is recognized by these officials as an effective medium for the prompt and widespread dissemination of information among public accountants and their clients.

*The Journal* has continued to inform its readers of significant developments in federal taxation as they occur. The eight issues published since the beginning of the current fiscal year have included eleven signed articles on taxes. In response to the interest which readers have expressed in tax questions, a new section entitled “The Tax Clinic,” edited by J. K. Lasser, was introduced in March. This department is intended to provide a forum where accountants who are acquainted with the fundamentals of tax law can exchange information, opinions, and experiences. Correspondence from readers of “The Tax Clinic” is especially welcome.

Among the authors of articles published in *The Journal of Accountancy* in the past eight months are twelve certified public accountants now serving with war agencies; eighteen members of the profession currently engaged in public practice; accountants, auditors, and comptrollers of business corporations; members of school and college faculties; public officials; attorneys; and civil engineers. Additional contributions would be welcome from those who, at the present time, occupy positions of leadership in the profession—particularly members of council of the American Institute and presidents of state societies of certified public accountants.

**Circulation**

One way to determine how effectively *The Journal of Accountancy* is accomplishing its wartime task is by analyzing its circulation. The circulation of *The Journal* continues to mount, the total in March, 1943, being 18,396 against 16,330 for March, 1942—an increase of 12 per cent. Letters and circulars describing *The Journal* have recently been sent to accountants; company executives; teachers of accountancy, finance, and economics—a list of over 30,000 names. Requests for 1527 student subscription blanks have been received from 49 colleges as the result of a special letter to instructors. New student subscriptions received to date more than offset the loss of subscribers caused by induction of young men from the colleges. About 54 per cent of *Journal* subscribers are public accountants; 16 per cent, corporation executives; with the balance consisting primarily of students, teachers, and public officials.

Subject to the regulations of the Board of Economic Warfare, *The Journal of Accountancy* continues to circulate throughout the world except in Axis and Axis-controlled countries. Copies of *The Journal* are sent each month to members of the Institute serving with the armed forces, although their dues are waived for the duration of the war. About 75 copies are mailed in care of Army post offices to unknown destinations. Through post exchanges and USO libraries, *The Journal of Accountancy* is available for reading and reference in 38 army posts throughout the United States.

It is reasonable to assume that the total number of persons reading parts of each issue of *The Journal of Accountancy* substantially exceeds the number of subscribers. There is no way to determine how many subscribers refer their copies to clients or other acquaintances because of articles or editorial comment which may be of special interest to them; nor is there any record of the number of persons consulting copies of *The Journal* which are available in libraries.

Each month, the editorial staff of *The Journal* reviews the contents of the magazine to determine which items may be of interest to persons outside the profession, including members of congressional committees, Treasury Department officials, secretaries of chambers of commerce and trade associations, editors of business and financial publications. During the current
fiscal year, more than 10,000 copies of eighteen Journal articles have been reprinted for distribution to such readers. Effectiveness of this extra circulation has been demonstrated by a substantial number of letters from persons to whom reprints were sent, indicating the usefulness of the information presented.

**Journal Advertising**

Advertisers have continued to express their confidence in The Journal of Accountancy as an effective medium for transmitting their message to members of the accounting profession. Advertising revenue for the first eight months of the fiscal year beginning in September, 1942, amounted to $12,236—a total considerably larger than that for the corresponding period in any previous year and approximately $1000 over the figure for the preceding year. Due to the curtailing of the manufacture and sale of business machines, several manufacturers discontinued Journal advertising temporarily. Through a consistent sales program, based on personal calls and correspondence, new accounts have been secured and several substantial contracts have been signed with new advertisers, including companies in the insurance and financial fields which had not previously advertised in The Journal. These companies have been sold on the basis of the importance and timeliness of the editorial content of the magazine and the quality of its readers. With respect to the number of readers, of course, The Journal cannot compete with general business publications of wide circulation.

The annual trip of the business manager to midwestern cities was omitted this year in keeping with wartime travel restrictions. Instead, advertisers were contacted by long-distance telephone regarding renewal of contracts—a plan which proved both economical and successful.

Letters of appreciation have been received from the Treasury Department and the Red Cross for advertising space contributed by The Journal in recent issues.

**Journal Questionnaire**

In order to learn how well The Journal is doing the job for which it is intended, and how it might do a better job, a simple questionnaire was sent to approximately 500 subscribers late in December. Each of these subscribers was asked to rate seven types of Journal articles, described in the questionnaire, in the order of their importance and usefulness to him. More than 300 replies were received from partners of large and small accounting firms, their staff members, and independent practitioners throughout the United States; presidents of state societies of public accountants; teachers of accounting; and corporate executives. This is an unusually high percentage of replies. A number of subscribers explained and supplemented their answers by letters. Analysis of all replies indicates that articles on taxation are ranked in first place by a representative cross section of Journal readers; accounting theory and financial-statement presentation, second; special accounting problems arising from wartime conditions, third; accounting systems (including cost systems and internal control), fourth; auditing procedure, fifth; professional problems (including legislation, examinations, and ethics), sixth; and accounting for particular industries, seventh.

Comparison of contents of The Journal in the current fiscal year with preferences of subscribers, as indicated by the questionnaire, suggests a rather high degree of correlation. A substantial proportion of the pages have been devoted to discussions of taxation, accounting theory and financial statements, and wartime accounting problems.

One significant conclusion drawn from the survey is that articles relating exclusively to specialized accounting or auditing problems of a particular industry are rarely justified, especially in a period when there is so much material of more general interest to be published.

**The Certified Public Accountant**

The Certified Public Accountant reaches all Institute members and about 300 non-member subscribers on or about the fifteenth of each month. Since The Journal of Accountancy is placed in the mails on or about the first day of each month, the Institute has an established medium of communication with its members and others concerned with the progress of the profession every two weeks. Thus, it has been possible to report promptly in Institute publications information about impor-
tant wartime developments such as modifications of government regulations affecting accounting and auditing procedures; changes in policies applicable to the rationing of gasoline and tires or interpretations of such policies; and revisions in Selective Service procedure applicable to accountants.

One of the primary functions of The Certified Public Accountant is to keep members of the Institute informed about current activities undertaken on their behalf by officers, committees, and the Institute staff. This information, the editors believe, is constantly becoming more useful as Institute activities continue to expand in response to the demands of increasing membership and a rapidly developing profession.

Annual Meeting Proceedings

Early in November, 1942, one month after the fifty-ninth annual meeting, the Institute published a 182-page paper-bound volume entitled "Wartime Accounting," containing the complete texts of all papers presented on that occasion. A copy of this publication, the fifth in a series of annual meeting proceedings, was sent without charge to every Institute member and associate.

Sale of more than 5200 additional copies at a price of one dollar has produced revenue which exceeds the production and mailing cost of the entire edition by $1,677.

Yearbook

Shortly before April 1, 1943, the Institute distributed to all members and associates, without charge, the 1942 edition of its Yearbook. This 364-page cloth-bound volume includes alphabetical and geographical lists of members and associates; committee reports to council at its spring and annual meetings in 1942; rules of professional conduct and by-laws of the Institute; names of Institute officers, members of council, and members of committees. As a record of Institute activities in these critical times, parts of the Yearbook deserve careful reading. Other sections are useful for reference purposes.

Wartime Problems

The exigencies of war, which have created greater opportunities and responsibilities for Institute publications, have also produced obstacles which make the fulfillment of these responsibilities increasingly difficult. Paper, which is literally the backbone of the printed page, has become a strategic war material and, as such, the available supply is inadequate to meet all wartime demands.

The War Production Board's Limitation Order L-244, as amended March 26, 1943, freezes the tonnage of paper which may be consumed by publications such as The Journal of Accountancy and The Certified Public Accountant in any quarter of the calendar year beginning March 31, 1943, at the weight used in the corresponding calendar quarter of 1942 or at 25 per cent of the weight used during the calendar year, 1942, whichever is greater. (This summary of the order disregards certain exceptions and adjustments.)

This order creates a difficult problem for publications which, like The Journal of Accountancy, have increased their circulation substantially in the past year. Such restrictions, however, had been anticipated. Basically, there are two possible solutions: (1) reducing the number of pages in each issue of The Journal; (2) reducing the weight of the paper on which The Journal is printed. If the first alternative were adopted, and if circulation could be frozen at the present level during the next year—which is, obviously, undesirable—it would be necessary to reduce the size of each issue, on the average, by at least eight pages. Smaller Journals, it is believed, would deprive readers of much useful information which cannot readily be secured elsewhere. The committee, therefore, has approved the substitution of a lighter weight of paper which will resemble the present stock in appearance and on which the printed text will be equally legible.

It is not proposed to limit the circulation of The Journal of Accountancy by placing restrictions on new subscriptions. The number of copies printed each month, however, will be confined to those required to supply the subscription list plus a limited supply for additional sales. Subscribers who desire back copies should order them promptly. Magazines for September and October, 1942, and for January and March, 1943, are already out of print.

The Certified Public Accountant is sub-
j ect to the same restrictions with respect to the consumption of paper. Beginning with the April issue, text replaced titles on the front cover of this bulletin. Future issues may contain fewer pages, and less significant items may be condensed or omitted.

Never in the history of the profession has there been a period when problems encountered in issuing publications and in maintaining editorial standards were as many or as complex. At no time has the need for such publications as a means of disseminating important and timely information, both within and outside the profession, been more urgent. The Institute, of course, is glad to cooperate with the government in effecting any procedures designed to hasten victory. It is believed that wartime restrictions will not impair the usefulness of Institute publications to members and subscribers.

Respectfully submitted,

FREDERICK H. HURDAN, Chairman
April 23, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The first wartime report submitted by this committee to the council in May, 1942, expressed apprehension about the effect of the war upon Institute publications. Although some of the difficulties we feared have since materialized, efforts to overcome them have been reasonably successful. It is confidently expected that these publications will continue to fulfill their responsibility to the accounting profession throughout the war, and in the postwar period which may introduce many new problems for accountants.

PAPER

The War Production Board’s Limitation Order L-244 as amended, subject to certain exceptions and adjustments, freezes the tonnage of paper which may be consumed by publications such as The Journal of Accountancy and The Certified Public Accountant in any quarter of the calendar year beginning April 1, 1943, at the weight used in the corresponding calendar quarter of 1942 or at one-quarter of the total weight used during the calendar year 1942, whichever is greater. These restrictions create difficult problems for publications which, like The Journal, have recently experienced substantial increases in circulation.

To comply with government requirements, a lighter weight of paper has been substituted for both editorial and advertising pages. By decreasing slightly the width of the margins on editorial pages, beginning with the November, 1943, issue, it will be possible to include more text material in 88 pages than was formerly contained in 96 pages, without reducing the size of the type. These adjustments, it is believed, will not affect materially the appearance of The Journal nor its legibility. If further restrictions upon the paper supply occur, other adjustments can be effected without seriously impairing the usefulness of Institute publications.

WAR ARTICLES

The primary purpose of The Journal of Accountancy in these war years is to provide for members of the profession information, not readily available elsewhere, which will help them to make their maximum contribution to the welfare of the nation. Two-thirds of the articles published in the past five months were war articles. Several others referred to changes in federal taxation, government regulation, and other developments related to the war. Editorials have discussed the status of accountants under Selective Service, auditing requirements of the War and Navy Departments, and maintenance of auditing standards under war conditions.

CIRCULATION

Circulation of the August, 1943, issue of The Journal was 19,869, compared with 16,852 in August, 1942. This is an increase of 3,017 copies, or about 17 per cent for the year, and an increase of approximately 100 per cent since 1937. Non-member subscribers on August 31, 1943, totaled 12,732, compared with 10,399 a year earlier—a gain of 22 per cent. Circulation in recent
months has been restricted by paper quotas, which have the effect of placing a ceiling upon the number of copies printed. All issues appearing from January through September, 1943, were exhausted within a few days after the publication date. Substitution of lighter weight paper permits increased circulation.

ADVERTISING

Revenue from advertising in The Journal of Accountancy for the fiscal year ended August 31, 1943, totaled $18,160, compared with $15,480 for the preceding year—an increase of 17 per cent. Several new accounts have been secured during the past year and a continued increase in advertising revenue is expected. Practically all advertising is obtained under long-term contracts. The business manager is constantly in communication with present and prospective advertisers, and with advertising agencies, through personal interviews and correspondence.

REPRINTS

More than 9,700 copies of fifteen articles and editorials published in the past five issues of The Journal of Accountancy have been reprinted and distributed to government officials; members of Congress; officers of professional, civic, and trade associations; editors of business periodicals and daily newspapers; and to the authors. Journal articles have been reprinted, by permission, in other publications and discussed editorially in newspapers and magazines.

THE CERTIFIED PUBLIC ACCOUNTANT

The Certified Public Accountant continues to circulate monthly among all Institute members and associates, and about 500 additional subscribers. Its primary function is to inform members concerning the activities of their national professional society, state societies, and individual certified public accountants. Because of current restrictions on the supply of paper, the text is confined to a concise presentation of the most important news. In conjunction with The Journal of Accountancy, this bulletin provides a medium of communication between the Institute and its members every fortnight.

ANNUAL MEETING PROCEEDINGS

The customary volume of proceedings, including the complete text of all papers presented at the 1943 annual meeting of the Institute, will be published this year. Each member and associate will receive one copy without charge. Additional copies may be purchased at a price of one dollar.

SALES OF BOOKS

Revenue from the sale of books is diminishing. In the fiscal year ended August 31, 1943, a total of 5,232 volumes were sold, producing revenue of $9,717, compared with $11,197 for the preceding year. The American Institute Publishing Company has issued no texts since 1938 with the exception of unofficial answer to examination questions, The Journal of Accountancy Index, and Institute yearbooks. A number of earlier publications are now out print.

The chairman takes this opportunity to express appreciation for the time and interest which members of the committee have devoted to its activities during the past year. In addition, the committee wishes to acknowledge the continued assistance and cooperation of the managing editor of The Journal of Accountancy, John L. Carey, and his staff. Thanks are due, also, to editors of the various departments appearing regularly in The Journal; to Institute members and others who have contributed articles, communications, or comments; and to all who have expressed an opinion on the contents or appearance of Institute publications.

Respectfully submitted,

FREDERICK H. HURDMAN, Chairman
I. RUSSELL BUSH
PERCY R. EVERETT
ALBERT E. HUNTER
ALAN P. L. PREST
October 6, 1943
Reports of Committees

Reports of the Committee on Public Information

MIDYEAR REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Activities of the American Institute in connection with the war program and its relations with agencies in Washington have been the main points of interest in the public-information program since the last annual meeting of the Institute. These activities have resulted in increasing recognition of the American Institute by the press as a reliable source of news relating to the part of business in the war effort.

Of immediate interest in this connection is the recently completed series of Wartime Accounting Conferences, initiated by the staff of the Institute, and conducted by state societies or state society chapters in seven important war production centers, namely, Boston, Philadelphia, Baltimore, Atlanta, Memphis, Detroit, and Indianapolis. The purpose of these conferences was to afford to members of the accountancy profession, and to financial and accounting executives of war production companies, an opportunity to hear and to discuss authoritative papers on taxation, and accounting and auditing problems arising out of the war.

The speakers at all seven conferences were five officers and representatives of the American Institute. These speakers and their subjects were: George S. Olive, president—"The Fifth Freedom"; George P. Ellis, vice-president—"Auditing under War Conditions"; Victor H. Stempf, vice-president—"War Contracts, Costs and Profits"; C. Oliver Wellington, past president—"Financial Statements in Wartime"; J. A. Phillips, chairman, committee on federal taxation—"Taxation and War."

As part of the conference plan, radio broadcasts by the president of the Institute and prominent citizens of the several communities were arranged in three of the seven cities. All press and publicity arrangements were made by the staff of the Institute. The press result was a total of 15½ columns in the newspapers of the seven cities. News releases on the opening meeting in Boston were sent out by the Associated Press and the United Press. Total attendance at the seven conferences was 1,853.

While the five Institute speakers were making this trip a special luncheon was held by St. Louis Chapter of the Missouri Society of Certified Public Accountants. The attendance at this luncheon, addressed by Messrs. Olive and Stempf, was 126.

One of the objectives of the Institute's committee on public information and the staff, since a formal public information program was undertaken in 1937, has been to develop among editors of newspapers and business and other publications an acquaintance with the American Institute as a source of much news bearing on the activities of industry and business and of the government as it relates to these. Steady progress has been made in this direction.

It is interesting to know that the month of March calls were received twice from Business Week, once from the New York Times, three times from the New York Journal of Commerce, and once from the New York Herald-Tribune for information relating to business news matters. In every instance the information requested was given promptly.

In preparation for the coming annual meeting of the American Institute, the staff already has sent out one short advance news story. It is now making early plans for publicity arrangements at the annual meeting.

News released by the Institute includes relations of accountancy to the war effort; pronouncements of technical committees on subjects of wide interest; activities of the committee on federal taxation. The Institute has released to the press of the national capital and of important news centers, news memoranda relating to statements and other presentations of Institute committee members and chairmen before committees of the United States Senate and House of Representatives.

The Institute's staff operates at all times a simple but effective liaison system by which all activities of the organization which might have public relations or pub-
licity interest are promptly acted upon. This liaison plan extends to include advance information of interesting articles, editorials, or other material to appear in The Journal of Accountancy.

In regard to The Journal of Accountancy, it can be reported that the interest of the staff extends not only to possible news interest lying in published material, but also to the public relations interest attaching to many articles and other features in the magazine. It is a matter of routine to call to the attention of governmental, trade association, professional group and other executives and members items in The Journal of Accountancy which hold public interest and significance for them. A number of these special mailings have resulted in interesting and worthwhile additional outside contacts for the American Institute. Special items called to the attention of persons outside the profession, notably to the attention of Senators and Representatives, have resulted in many letters extending beyond the limits of mere polite acknowledgments. There have been a number of cases in which officials and members of both houses have taken the trouble to dictate lengthy communications, indicating that they had not only read with interest the items sent to them but have also felt the cooperation and interest of the American Institute of sufficient importance to acknowledge at length.

One of the most useful and successful agencies in the public information program is the speakers' bureau. The deliberate purpose in establishing this department was to bring about the appearance of a maximum number of representatives of the accounting profession as public speakers, particularly at meetings, conventions, and conferences of outside groups. A total of 51 engagements for members of the profession as speakers before outside organizations (not including state societies) has been secured since the work started.

It is also the custom to send to the hometown newspapers of newly elected members and associates brief news dispatches announcing their election.

The Institute releases public announcements of the winners of the gold and silver medals under the terms of the Elijah Watt Sells awards. Almost without exception, it has been found that newspapers receiving these announcements have printed them, in some cases with pictures.

The staff has continued its interest in the public relations and publicity activities and requirements of the various state societies, and the Institute has contributed substantially to the notable increase in the volume of news and picture publicity being secured by state societies.

The Institute staff continues to operate the information clearing house.

Among the latest news releases to be sent out from the Institute office was one relating to the appointment of the six war activities committees, which received considerable attention from the press.

Distribution of the four public information pamphlets continues. In view of increased interest in the war effort, there has been a falling off in demand for the public information pamphlets, though it can be reported that last month one order for 3500 copies of the leaflet "Please Check Your Account" was received. In view of the general war situation, the present public relations policy of the Institute is to consider no further publication of new public information pamphlets until some time in the future. Circulation totals for the four so far are 971,962.

One special opportunity for publicity and public relations which is watched at all times is concerned with the activities of officers, committee chairmen, and other representatives of the Institute. The staff has on file a large collection of news photographs and constantly is sending these out in connection with public appearances of leading representatives of the organization. Wherever opportunity presents itself, the staff sends out also abstracts of addresses presented by officers and other representatives of the American Institute.

It is significant to know that study of clippings received in the Institute offices from newspapers indicates that news relating to accountancy has appeared in newspapers in every state in the Union and a number of times in every important city in the United States. No accurate count could be made without great difficulty, but it can be safely estimated that news items originating in the American Institute offices have appeared in more than 500 cities in the United States. It would be impos-
possible to find any important newspaper anywhere in the country which has not published at least one news release sent out by the Institute.

Respectfully submitted,

VICTOR H. STEMPF, Chairman

May 3, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Continued contact with the daily and business press; co-operation with state societies in their meeting and publicity problems; operation of the speakers' bureau and information clearing house; and release of news relating to the activities of the Institute, its officers and committees, continue to be the major items in the public relations program.

Under the heading of relations with the press, your committee can report a recent successful example of public relations work accomplished on behalf of the profession. In this case, the daily newspapers forming an important national chain published an editorial on taxation which implied that accountants favor complicated tax laws on the ground that they make more work for the profession.

Upon appearance of this editorial in a New York newspaper affiliated with the chain, the Institute's staff, with the approval of your committee, lodged prompt and vigorous protest with the publishers. Copies of the protest and evidence proving the profession has always favored and worked for simplification of tax laws were sent to the chief editors of the nineteen papers forming the chain, and to presidents of state societies in states where papers of the chain are published.

Public relations resources of individual state societies were brought into play in this situation. Using the material sent out by the Institute as a basis for their protests, several societies approached editors of papers in their states which had published the offending editorial. In the Institute correspondence and in the protest of the state societies, care was taken to present the answer of the profession in temperate and reasoned language.

The result of this organized protest was a general editorial issued by the headquarters of the publishing organization to the chief editors of all of its member papers. This editorial, entitled “Apology and Suggestion,” retracted what the earlier editorial had said and, as part of its text, quoted the American Institute's letter of protest. It can be said that, through prompt action taken by the Institute, the state societies, and many individual practitioners who also sent letters to editors, the profession definitely gains rather than loses in this experience.

It is worthy of note that the news activities of the public relations program are resulting in an increased number of editorials in important newspapers relating to the American Institute and its activities. Notable examples of editorials thus published are, first, the apology referred to above; one entitled “Relief for Small Business,” published in the New York Journal of Commerce and based on an article by Maurice H. Stans which appeared in The Journal of Accountancy [September, 1943]; another editorial in the same daily paper and based on a public statement by the chairman of the Institute's committee on federal taxation; another based on an article in The Journal of Accountancy [September, 1943] by Walter A. Cooper on the subject of “An Integrated Plan for Postwar Reserve Allowances.”

Others have included comment on an editorial on postwar planning published in The Journal of Accountancy, and one on an article on the subject of tax reform, also printed in The Journal. That publication also presented an article on the part accountancy can play in world peace which resulted in publication in the Providence (R. I.) Journal of the full text of the article, a cartoon suggested by it, and an editorial.

The texts of the above editorials and articles in The Journal of Accountancy were widely distributed by the public relations staff. The mailing lists included newspaper chief editors; the editors of business publications; trade, industrial,
management, and other organizations; members of congressional committees and, in the case of the editorial on postwar planning, all members of the United States Senate and House of Representatives; governors of states; departments and bureaus of the United States government; and others. In the case of the reprint of the article by Mr. Stans, 500 copies were distributed by the Smaller War Plants Corporation to its field force. The chairman of the committee on government finance of the National Association of Manufacturers distributed copies of Mr. Cooper's article to the members of that NAM committee.

One of the expected results of the American Institute public relations program is that constant release of interesting news relating to the profession will serve to increase the number of items about accountancy which do not directly come from the Institute, but which reflect acceptance of accountancy as a source of news. In this connection, it is interesting to note that in one recent issue of the New York *Times* certified public accountants were featured in four news items. One of these was released by the New York State Society to announce installation of its new president. The others had to do, respectively, with the appointment of a certified public accountant as a member of the committee on practice of the Treasury Department, quoting of a certified public accountant in a statement on postwar reconstruction, and reference to a public address by a certified public accountant now with the Army.

The public relations department has cooperated with state society groups in a number of important meetings. Advance publicity material relating to representatives of the Institute appearing as speakers at the recent annual meeting of the Ohio Society of Certified Public Accountants was sent out. Advance material mailed by the Institute staff also related to appearance of Institute officers or members as speakers at the annual or other meetings or sessions of the Pennsylvania Institute of Certified Public Accountants; International Cost Conference of the National Association of Cost Accountants; the North Carolina Association; the Dominion Association of Chartered Accountants; the Colorado, California, Texas, and Mississippi societies; the Northwest Wartime Accounting Conference; Milwaukee chapter of the Wisconsin Society; Annual Institute of Accounting of the Ohio State University; and other events.

The staff of the Institute has sent out several advance news releases relating to the annual meeting, these including news accounts of individual nominations to local papers; a general news announcement of nominations for the presidency and other officers; a general news summary of the meeting program; announcement of the winners of the Elijah Watt Sells awards. Plans have been completed for the operations of the press bureau at the annual meeting.

In the light of activities in the public relations program since your last meeting, your committee feels justified in reporting progress.

Respectfully submitted,

Victor H. Stempf, Chairman
Edward A. Kracke
Saul Levy

October 15, 1943

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Reports of the Committee on Public Utility Accounting

MIDYEAR REPORT

To the Council of the American Institute of Accountants:

Gentlemen: Continuing in its course as a liaison between the utility regulatory commissions and the committees on accounting procedure and auditing procedure, the activities of this committee have been as follows:

Coöperation with Federal Power Commission

The executive committee, in its war program, requested our committee not to
initiate any activities but to consider only such specific problems as were submitted. The Secretary of the Institute wrote a letter to the Federal Power Commission offering the assistance of our committee. The reply stated that there were no present problems justifying the assistance of the Institute.

**Amendments to Regulation S-X**

Each member of the committee received from SEC a draft-copy of two new rules (4-13 and 5-02) proposed to be adopted as amendments to Regulation S-X. The committee cooperated with the committee on accounting procedure in constructive criticism. The two rules, as revised by SEC and as adopted, effective January 26, 1943, give effect to the criticisms presented by the Institute's committees.

**Northwestern Electric Company Appeal**

Northwestern Electric Company took an appeal to the Circuit Court of Appeals for the Ninth Circuit from an order of the Federal Power Commission. Counsel for the respondent (FPC) in a brief dated November 16, 1942, attempted to justify the order of the Commission by claiming that the order accords with established principles of correct accounting. The testimony of the Commission's own witness, as quoted in that brief, stated that the treatment ordered by FPC was called for by a policy and not by an accounting principle.

The matter came before this committee by reference from the committee on accounting procedure. A letter was drafted for the purposes of calling to the attention of the Chairman of the Commission the contradictions in the brief prepared by the Commission's counsel and of expressing the concern of the Institute over the inaccurate use of the phrase "accepted accounting principles." The members of our committee who had a client relationship to the case at bar refrained from participating in committee action. The letter, as edited and revised, was sent to the Chairman of the Commission on January 19, 1943.

The managing editor of *The Journal of Accountancy* sent a courteous note to the Chairman of the Commission stating that, because the subject matter was of interest to many accountants, the letter would be published in the February, 1943, issue of *The Journal*, and stating also that the columns of *The Journal* would be open to any reply. Soon thereafter, by long-distance telephone, the editor was informed that objection was made to the publication of the letter without the reply appearing on the same page, and that a reply could not be made until the appeal had been argued before the court. Whereupon, as a further courtesy, the editor ordered that the presses be stopped and that the pages containing the letter be omitted from the February issue.

The letter was printed in the March, 1943, issue of *The Journal*, at pages 261 to 264, inclusive.

On March 12, 1943, A. R. Colbert, Chief of the Accounts and Finance Department of the Public Service Commission of Wisconsin addressed a letter to the chairman of this committee, commenting on the letter that had been published in *The Journal*. At the same time Mr. Colbert sent a copy of his letter to the editor of *The Journal*, with a strong request that it be printed. By agreement, the letter was treated as a letter to the editor and was printed in the April, 1943, issue of *The Journal*, at pages 360 to 363, inclusive.

In the May, 1943, issue of *The Journal*, at pages 451 and 452, there was printed a letter to the editor written by George O. May, which continued the discussion of the case.

The appeal was decided in favor of the Commission. A petition for rehearing was filed, in which counsel for the petitioners (the electric company) quoted at length from the letter that had been sent in January, 1943, to the Chairman of the Federal Power Commission. The Commission's counsel filed an objection, in which reference was made to that letter and in which a quotation was made from Mr. Colbert's letter, printed in the April *Journal*.

Respectfully submitted,

**Henry A. Horne, Chairman**

May 8, 1943
ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The activities of this committee since the submission of its midyear report may be summarized as follows:

NORTHWESTERN ELECTRIC COMPANY

APPEAL

Our former report referred to a petition for rehearing which was pending before the Circuit Court of Appeals for the Ninth Circuit. That petition was decided against the electric company.

A petition for certiorari was presented to the Supreme Court of the United States. Careful consideration was given by the legal counsel of the Institute to the desirability of filing a brief as amicus curiae. Counsel decided that the brief should not be filed at that point.

REVISION OF SYSTEM OF ACCOUNTS FOR TELEPHONE COMPANIES

The Federal Communications Commission has proposed a series of amendments to the Uniform System of Accounts prescribed by it for telephone companies.

The proposed amendments were referred to this committee and it was asked to cooperate thereon with the committee on accounting procedure. Opinions were secured by mail from the members of both committees, a joint meeting of members of both committees was held in July, and a subcommittee was appointed, with membership from both main committees, to draft a letter for forwarding to the Commission (FCC) by the chairman of the committee on accounting procedure. The letter has been drafted and in due course it will be mailed.

DRAFT REPORT OF NARUC COMMITTEE ON DEPRECIATION

The Committee on Depreciation of the National Association of Railroad and Utilities Commissioners prepared a draft report for submission to the annual meeting of the Association. The Association asked that the draft report be reviewed by representatives of the Institute. It was referred to a committee selected from this committee and the committee on accounting procedure. A meeting was held, the draft report was had under consideration, and the chairman of the committee on accounting procedure wrote a letter to the Chairman of the NARUC committee expressing the conclusions of that meeting.

MISCELLANEOUS

The inquiries that have come to the office of the Institute and have been referred to this committee, for information or advice, have all been answered.

Respectfully submitted,
HENRY A. HORNE, Chairman
HARRY BOOGS
W. M. COURSEN
DONALD M. LIVINGSTON
J. ARTHUR MARVIN
EDWARD J. MURNANE

September 29, 1943

REPORTS OF THE COMMITTEE ON SOCIAL SECURITY ACT

MIDYEAR REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: As chairman of the committee on social security, I desire to state that an effort has been made to bring together the members of our committee at some central point during this month or June, but up to now it seems that this will not be possible. Some of the members are so tied up that they could not possibly attend the meeting and others have not shown any interest.

Theodore L. Koos of the Westinghouse Electric and Manufacturing Company was in Baltimore on March 5th and we arranged to have luncheon together, at which time we discussed matters pertaining to our committee. I had asked Mr. Koos to act as secretary of our committee and to prepare an agenda for the proposed meet-
ing to be held either this month or in June. Among the matters suggested by him were the following:

(1) Propose provisions relating to uniformity of state unemployment compensation contribution and wage reports
(2) Review of all state laws
(3) Experience rating
(4) Partial unemployment compensation benefits

(5) Wage and separation reporting, and such other matters that might be of interest to the committee

If it can be arranged, a committee meeting will be held and a report made at some time in the future, so for the present the only report that I can make is that of progress.

Respectfully submitted,

FRANK A. SHALLENBERGER, Chairman
May 7, 1943

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The members of the committee on the Social Security Act have found it impracticable to hold a meeting since it was appointed, due to the geographical representation and to the fact that each member is carrying heavy schedules during the current wartime conditions. However, two members of the committee, Messrs. Shallenberger and Koos, met on March 5th, and discussed in general terms a program to outline the duties of the committee and the scope of its functions.

Proposed Social Legislation

Although it has been suggested that the war period is not an appropriate time for the extension of social legislation, there has appeared to be a need for such legislation predicated on the fact that basic social reforms are being forced by war conditions and therefore, they are a problem of social security.

Since this committee was appointed, there has appeared the well-publicized report, known as "The Beveridge Report." This report was published in England, November, 1942. Briefly, it proposes that England guarantees basic subsistence for all her people.

As its American counterpart, the National Resources Planning Board prepared three reports known as "Postwar Plan and Program," "Wartime Planning for War and Postwar," and "Security, Work, and Relief Policies." These reports were transmitted to the Congress of the United States, March 10, 1943. The functions of this Board were terminated in July, 1943,

by Congress in refusing to appropriate funds for its continuance.

It might be of interest to mention that America's Town Meeting of the Air considered it timely to conduct a debate February 11, 1943, on the subject "Should We Extend Social Security Now?" The affirmative side was presented by Mr. Altmeyer, chairman of the Social Security Board, and by the Hon. James E. Murray, whereas the negative side was presented by the president of an insurance company and by the manager of the insurance department of a corporation.

On June 3, 1943, Senator Wagner introduced a bill in Congress. This bill, if enacted, would create a "Unified National Social Insurance System" consisting of the following:

(1) National system of public employment offices.
(2) Federal old-age retirement, survivors, and permanent disability benefits.
(3) Federal unemployment and temporary disability insurance.
(4) Federal maternity benefits.
(5) A new federal program providing medical and hospitalization benefits.
(6) A revised and increased social-insurance-tax program and trust fund.
(7) A new federal program of aid to states for general relief.

Scope of Committee's Functions

It has been the desire of this committee to act in a capacity to promote study and discussion of matters of an accounting nature relating to social-security taxation and to make recommendations as a result thereof. Since such questions as whether
the social-security program shall be extended are economic and social as well as political, it is believed that this committee should avoid becoming involved in issues of such nature.

Recommendations

Since a meeting of the committee could not be held, the members have been somewhat handicapped in discussing recommendations. Through the means of correspondence, the views of most of the members have been expressed.

As a committee, we wish to make a number of recommendations for consideration. With the exception of the first recommendation, if the new committee to be appointed by the incoming president feels that these recommendations are worthy of consideration, it is suggested that the recommendations be presented to the Social Security Board or other governmental agency.

The recommendations are, as follows:

1. The name of this committee shall be changed from “committee on Social Security (Act)” to “committee on social security taxation.”

2. A study should be made toward simplifying and standardizing the wage data required by the various federal and state governmental agencies from employers.

Remarks: At present, an employer prepares separate wage data for filing with various governmental agencies. A summary of these reports is, as follows:

A. Employer’s tax return under Federal Insurance Contributions Act is required for filing quarterly with the local Collector of Internal Revenue. The regulations relating to this return require the employer to report the amount of taxable wages paid to each employee during the current reporting quarter. Taxable wages are defined as the first $3,000 of wages paid to an employee since January 1st of the current year. Federal Old Age and Survivors’ Insurance contributions are calculated at the rate of one per cent as the employer’s tax whereas one per cent of taxable wages paid to each employee is withheld by the employer at the time wages are paid. The sum of the employer’s tax and the employee’s tax is remitted at the time this return is filed with the local Collector of Internal Revenue.

B. Employer’s contribution reports, together with wage reports, are required for filing quarterly with state unemployment compensation agencies. The requirements of reporting wages can be classified into two general groups. In some states, the wages are required to be reported on individual wage reports whereas, in other states, regulations require wages to be reported on “the listing method”. The latter method is similar to the reporting of taxable wages on employer’s tax return under Federal Insurance Contributions Act.

The various state regulations differ with respect to the level at which employers are required to report wages. Wage reports are required by the states in one or more of the following classes:

1. Taxable wages (wages paid to each individual up to and including $3,000 for the year).

2. Total wages.

3. Total wages, wages in excess of $3,000, and taxable wages.

4. Total wages and wages in excess of $3,000.

5. Taxable wages and wages in excess of $3,000.

6. Total wages and taxable wages.

It is evident that the above mentioned requirements would impel a company having employment in many states to seek standardization.

C. Statement of income tax withheld on wages (Form W-2). This return provides for the total wages paid to each employee and the amount of income tax withheld during the calendar year. Income-tax regulations require all employers to file a statement of total earnings of each individual on the payroll at any time during the year. These returns are to be filed no later than January 31st of the following year.

D. State information returns. In states having an income tax law, employers are required to report total wages paid individuals who were employed in those states during the calendar year.

Any method of coordinating the requirements of these agencies would greatly reduce the clerical work entailed in preparing wage data by employers.

After a study has been made, recommendations would be in order.

3. A study should be made to standardize the reporting of “contributions” and “wage paid” to the various state unemployment compensation agencies.

Remarks: At the inception of the social-
security system, state agencies were permitted to devise their own systems of requiring reports from employers. As a natural consequence, the systems were divergent in many respects, causing multi-state employers to be burdened with many types of requirements. After more than six years in operation the various systems are still divergent and no signs of standardization appear to be in the offing.

4. An employer should be permitted to provide a reserve to absorb the cost of additional state unemployment compensation taxes due to depletion of state reserve funds arising from benefits paid to individuals released from employment after the war emergency. The annual provision to this reserve shall be allowed as a tax deduction on the corporation income and excess-profits-tax return by amendment to the Internal Revenue Code, provided, however, that the taxpayer submits evidence of having invested the full amount of the annual provision in appropriate interest-bearing government securities made available for that purpose.

Remarks: Experience-rating provisions of the various state unemployment compensation laws affect a tax saving for an employer who has had stable employment experience for a number of years. The tax savings are automatically eliminated if an employer's employment experience after the war should become unstable by releasing a large number of individuals whom he employed during the war period. The effect of such releases might cause a penalty rate to be imposed on such employer since the state unemployment compensation benefits paid to his released workers would naturally cause a drain on the state reserve funds.

It is, therefore, natural to assume that this condition would affect not only a few employers but most employers in a highly-industrialized state. Because of the heavy drain on the reserve fund, a state might be required to impose a penalty rate in addition to the standard rate of 2.7 per cent. If such rate is imposed, the taxpayer would have to absorb the cost of the additional state unemployment compensation taxes in a period of low production and in a period which should not bear this cost. The period of production that should bear this cost is the current war period because the taxpayer's rate has been reduced below the standard rate of 2.7 per cent on account of stable employment experience.

The taxpayer should, therefore, be permitted to provide out of earnings during a present period of high production a reserve to absorb the additional cost of state unemployment-compensation taxes which can be expected at the termination of the present war period.

The reserve should be the actual tax saving effected by experience rating, that is, the amount of difference between the amount of contributions paid to a state agency and the contributions at the rate of 2.7 per cent. Charges to the reserve in the postwar period should cover only contributions paid to state agencies resulting from penalty rates.

5. Experience rating provisions of every state unemployment compensation law should contain a limitation on the privilege of contributing at a reduced contribution rate on greatly expanded payrolls.

Remarks: In anticipation of probable widespread unemployment following termination of the war, this safeguard would prevent undue depletion of the balance of the respective state unemployment compensation reserves. The limitation shall be of such a nature to provide a means to determine normal payroll of an employer immediately preceding the outbreak of the present war. For instance, an average of payrolls for the years 1936 through 1940 would, no doubt, be an equitable average. The experience rate assigned to an employer shall be computed on this average payroll. On payrolls in excess of the average payroll, the employer should be required to pay unemployment-compensation tax at the rate of 2.7 per cent.

6. The Social Security Act should be amended to eliminate the disallowance of credit for state contributions whenever a decision of the Social Security Board is made to the effect that an independent contractor is an employee of the company for whom the work was performed. This amendment should also provide that the adjustment of tax on such employment be made on the current year's federal unemployment-tax return, eliminating the filing of an amended return for a prior year.

Remarks: The status of an independent contractor in relation to the Social Security Act has caused a great deal of confusion among employers due to the fact that decisions have been made by the Social Security Board to the effect that individuals engaged as independent contractors are, in a great number of cases, employees of the company for whom the work was performed. The trend of decisions has been toward including as many individuals as legally possible under coverage of the Social Security Act.

Employers have encountered from time
to time problems in connection with engaging individuals as independent contractors and have discovered at a later time that they were employees of the company. The employers, therefore, were subject to Social Security taxes on their taxable wages for the period of employment involved. Cases of this nature are usually decided upon in a subsequent year or after the time limit expired for obtaining either the 90 per cent or the 81 per cent credit under the Federal Unemployment Tax Act.

Briefly, this act provides employers credit for the amount of contributions paid to state unemployment compensation agencies during the year not to exceed 90 per cent of the federal unemployment tax at 3 per cent. If the contributions are not paid on or before January 31st of the subsequent year, employer is allowed only 81 per cent of the federal unemployment tax. This credit expires on June 30th of the subsequent year. Thereafter, an employer is required to pay the federal unemployment tax at the rate of 3 per cent and no credit is allowed for payment of state contributions.

7. An amendment should be made to the Social Security Act to eliminate the payment of contributions to state unemployment compensation agencies on earnings in excess of $3,000 paid to an individual employed in more than one state during a calendar year by the company employing him.

Remarks: The Social Security Act, as amended in 1939, defines taxable wages as the first $3,000 paid to an individual in any calendar year. Similar provisions are contained in the unemployment-compensation laws of the various states. The provision in these laws causes a problem for an employer who transfers an individual having earnings in excess of $3,000 during a calendar year from one state to another during a calendar year. The state from which he was transferred will consider the first $3,000 paid to the individual in that state as taxable wages and the state to which he was transferred will likewise consider the first $3,000 paid while employed in that state as taxable wages. As a result, an employer might be required to pay unemployment-compensation taxes on wages paid to an individual up to $6,000 if he were employed in two states during a calendar year. The employer is entitled to credit on the federal unemployment-tax return for only the contributions on the first $3,000 paid to the individual during the calendar year.

An illustration is as follows: A company employs an individual at a salary of $6,000. During the first six months this individual was employed in the state of New Jersey and was transferred to the state of New York on July 1st. He continued to be employed in New York for the remainder of the year. His employer is required to pay contributions to New Jersey and New York unemployment-compensation agencies on his salary of $6,000. The employer is entitled only to the credit for contributions paid the New Jersey unemployment-compensation agency on the federal-unemployment-tax return because the Social Security Act provides for such credit on the first $3,000 paid an individual.

It appears that an adjustment could be made on an allocation basis through an interstate agency. This would effect a considerable tax savings to large employers.

8. The Social Security Act should be amended to eliminate the payment of federal old-age and survivors' insurance tax, federal unemployment tax, and state unemployment-compensation taxes on earnings in excess of $3,000 paid to an individual employed by more than one company during a calendar year.

Remarks: The present system of social security requires an employer to pay federal old-age and survivors' insurance tax as well as federal unemployment tax and state unemployment-compensation taxes on the first $3,000 paid an individual regardless of whether this individual had been employed by another company during the current calendar year and who had total earnings in excess of $3,000 for that year. Also, in such cases, the employer is required to withhold federal old-age and survivors' insurance tax on the first $3,000 paid an individual during the year.

An individual who had been employed by more than one company during any calendar year, is entitled to file a claim for refund on the withholding of federal old-age and survivors' insurance tax on wages in excess of $3,000 paid him by all companies employing him during the year. This claim can be filed by the employee at any time within two years after the end of the calendar year. Attached to the claim, the employee is required to have a copy of statements of his earnings to be prepared by each company who employed him. Upon filing, the employee obtains a refund of the tax due him from the Collector of Internal Revenue.

Under the present law, the employing companies of such individuals have no recourse to obtain a refund of tax on earn-
ings in excess of $3,000 paid him. The total social-security taxes thereon would be 4 per cent, provided that the employer is not entitled to experience-rating credit in the states in which the individual was employed.

It is believed that relief should be had by each company employing such individuals. Perhaps, an allocation basis of apportionment according to months could be provided for at the time the individual files his claim for refund.

**GENERAL**

This committee believes that an effective program of cooperation with the Social Security Board, Interstate Conference of Employment Security Agencies (an association of directors of state unemployment-compensation agencies), and other federal and state governmental agencies can be initiated and developed by presenting recommendations on matters of an accounting nature relating to social-security taxation.

Respectfully submitted,

**FRANK A. SHALLENBERGER, Chairman**  
**LEE V. BRINTON**  
**BRYON P. HARRIS**  
**THEODORE L. KOOS**  
**GLENN A. RAILSBACK**  
**JOHN WISEMAN**

October 15, 1943

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**Reports of the Committee on State Legislation**

**MIDYEAR REPORT**

**TO THE COUNCIL OF THE**  
**AMERICAN INSTITUTE OF ACCOUNTANTS:**

**GENTLEMEN:** During the current year, the legislatures of forty-four states have been in session. Although a detailed summary of the bills will be presented in the committee's report to council in October, and information concerning new legislation is presented from month to month in The Certified Public Accountant, the following brief summary of bills introduced is presented:

<table>
<thead>
<tr>
<th>Type of provision or bill</th>
<th>Number of States in which bills introduced</th>
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</thead>
<tbody>
<tr>
<td>1. Two-class restrictive bills</td>
<td>5</td>
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<tr>
<td>2. Waiver provisions</td>
<td>4</td>
</tr>
<tr>
<td>3. Experience-requirement provisions</td>
<td>1</td>
</tr>
<tr>
<td>4. Educational standards</td>
<td>2</td>
</tr>
<tr>
<td>5. Municipal (of interest to accountants)</td>
<td>10</td>
</tr>
<tr>
<td>6. Registration of accountants for municipal audits</td>
<td>2</td>
</tr>
<tr>
<td>7. Elimination of time served by candidates in armed services in computing time within which they may be reexamined in subjects in which conditioned</td>
<td>1</td>
</tr>
<tr>
<td>8. Exemption from annual registration fees while in military service</td>
<td>9</td>
</tr>
<tr>
<td>9. Privileged communications</td>
<td>2</td>
</tr>
<tr>
<td>10. Assumed-name provision</td>
<td>1</td>
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</table>

The Institute's office has transmitted to state society and accountancy board officers, as in the past, daily reports of the introduction and progress of bills affecting accountants in the various states.

There are two legislative provisions that have been brought to the attention of the committee through bills in the current legislatures, upon which council may wish to express an opinion, so that the committee on state legislation may speak thereon with authority when similar provisions are presented in future legislation.

"**ASSUMED NAME**" **LEGISLATION**

At the recent session of the Pennsylvania legislature, M. J. Root, CPA, member of the Pennsylvania Institute of Certified Public Accountants, and a member of the state legislature, introduced bills which would prohibit practice as certified public accountants, public accountants, or auditors, of individuals under a firm name including the names of deceased partners or persons no longer members of the partnership. These bills, which were similar to bills introduced by Mr. Root in the 1935 legislature, failed to pass. Those who favor such legislation have pointed out that an unfair advantage is given practitioners who are permitted to carry on the goodwill of practitioners no longer with the accounting firm. It has also been said that the public is misled as to the identity...
of partners of accounting firms practicing under an assumed name. The following arguments in opposition to such legislation were made in 1935 by the then chairman of the committee on state legislation, speaking as an individual practitioner who practiced under his own name in the state of Pennsylvania:

The so-called "assumed name" bills do not render protection or benefit to the public. Passage of the bills would make it necessary for many old, established firms, both large and small (some with offices only within the state), to change the name by which they have been known for many years. No one is deceived by the use of firm names containing the names of partners no longer living or no longer partners of the firm, since clients of the firm are bound to know the individual partners of the firm with whom they are dealing.

Many of the most reputable accounting firms, both large and small, would be adversely affected by passage of such legislation and would be deprived of goodwill based on ability and integrity maintained over a long period of years. It is a common practice for reputable members of the legal profession to retain in the firm name, the names of partners no longer with the legal firm.

"Assumed name" provisions should not be confused with provisions prohibiting practice by accountants in corporate form, to which the Institute has frequently voiced its opposition. No member or associate of the Institute may serve as an officer, director, stockholder, representative or agent of any corporation engaged in the practice of public accounting.

For the guidance of the committee on state legislation in dealing with "assumed name" provisions in the future, the committee requests an official expression from council.

Certified Municipal Accountant

A bill to provide for creation of a state board of municipal accounting and issuance of the title "Certified Municipal Accountant," was introduced in the Oklahoma legislature. The Oklahoma Society of Certified Public Accountants and the Oklahoma State Board of Accountancy opposed this legislation, and the bill was killed.

The Institute's committee on governmental accounting presented a statement on "Special Accountancy Examinations," which was published in the April, 1939, issue of The Certified Public Accountant. The committee on governmental accounting pointed out in its statement that nearly every type of business presents some special features which affect the form and content of the accounts and financial statements and the scope of the audit. It would be absurd to require that a certified public accountant take special examinations in each of the special fields in which he might be called upon to serve. It should be pointed out that in recent years, the Institute's standard examination has included a problem in municipal accounting and that over the years the standard examination has contained problems in a number of specialized fields. The issuance of numerous specialized accounting certificates is apt to confuse the public and give rise to legally recognized groups who might strive to obtain the CPA certificate without meeting all requirements of the present CPA laws. In view of these reasons, the committee recommends adoption by council of a resolution in opposition to special examinations and creation of special legal titles and licenses for accountants in specialized fields as contrary to the fundamental principles underlying the training of persons for public accounting and auditing, and to the best interests of the public.

Model CPA Laws

Over the past few years, the committee on state legislation has made intensive studies of the principles of accountancy legislation. The committee plans to incorporate those principles which have been approved by council in drafts of model non-restrictive and restrictive accountancy bills, which will be submitted to members of council prior to the annual meeting, with the thought that official action might be taken on the model legislation by council at the annual meeting in October.

Respectfully submitted,

T. Dwight Williams, Chairman
May 1, 1943
ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: During the past year the legislatures of forty-four states have been in session. A total of thirty-eight accountancy bills were introduced in the legislatures of seventeen states and have been considered by your committee. The office of the secretary of the Institute followed these bills from their introduction in the legislatures of the several states until disposition was made of them. It continued the policy of keeping the members of the committee, officers of the state societies, and others interested, informed of the legislative developments as they occurred. According to the information service maintained in the office of the Institute sixteen of these bills were enacted into law.

Restrictive laws were enacted in Georgia, Illinois, and Missouri. The Georgia law provides that the continuity of the experience of applicants for certified public accountant certificates will not be considered broken by service with the armed forces of the United States. It also includes a section providing for privileged communication under certain conditions.

A new restrictive accountancy law was enacted in Illinois. Under the new law, CPA certificates would continue to be issued on the basis of examination through the board of examiners. Certificates would be issued to holders of unrevoked certificates as public accountants in the State of Illinois who were registered under the Act of 1927 and who make application within one year following enactment of the law. Provision is also made in the law for accountants who received their certificates of registration as public accountants on the basis of the regular semiannual written examination given by the board of examiners of the Department, who make application within ten years following the passage of the act, have been engaged in public practice for at least ten years, and who shall successfully pass a written or oral examination, to be given by a special board of five examiners to be appointed by the University.

A law was enacted in New Mexico containing a waiver provision and raising the required grade for passing accountancy examinations to seventy-five per cent.

In Connecticut a bill was enacted authorizing the Tax Commission to examine working papers pertaining to municipal audits by independent public accountants.

The legislatures of Florida, Indiana, Kansas, Minnesota, Montana, New Mexico, and Wisconsin enacted laws providing for exemption from annual registration fees by accountants while in military service.

In Iowa bills were enacted clarifying the present law and correcting a grammatical omission in the definition of "accountant." A bill was enacted in Oregon providing for the maintenance of a roster of accountants authorized to conduct municipal audits.

The following information pertaining to bills which failed to pass is furnished as an indication of questions under consideration by those interested in accountancy legislation in the various states:

A bill was introduced in the Missouri legislature providing for the creation of a State Board of Registered Public Accountants and the registration of public accountants.

Two-class restrictive bills were introduced in California, Connecticut, and Minnesota. Bills containing waiver provisions were introduced in Florida, New Mexico, and Minnesota. A bill was introduced in Minnesota providing for the registration of public accountants and for the creation of a State Board of Registered Public Accountants. In California a bill was introduced recognizing work done while in the employ of a governmental agency and performed under the supervision of a certified public accountant, as fulfillment of the experience requirement. Another bill was introduced in that state to set up a State Board of Accountancy composed of four certified public accountants and three registered public accountants.

Two bills were introduced in Pennsylvania proposing amendments to the present accountancy law, which would make it unlawful for any person, individually or
in a partnership, to practice under an assumed name or under the name of a former associate who is no longer actively associated with such practice.

In Oklahoma a bill was introduced providing for a State Board of Municipal Accountancy and the issuance of certified municipal accountant certificates.

Your committee believes that the issuance of special licenses or certificates as municipal accountants, or any of the other specialized fields of accounting, are not in the best interest of either the public or the profession and proposes that the council adopt the following resolution:

"Whereas it appears unreasonable and not in the best interest of the public to provide for the examination and issuance of special licenses in the many specialized fields in which certified public accountants serve,

"Therefore be it resolved that the council of the American Institute of Accountants opposes as contrary to the fundamental principles underlying training of persons for public accounting and auditing practice, the granting of special examinations or the issuance of special licenses for auditors of a special industry or public bodies."

Your committee further believes that the enactment of legislation containing provisions permitting the issuance of certified public accountant certificates by waiver, or without proper examination, tends to destroy the value of the certified public accountant certificate not only of the state issuing the waiver certificate but also those of other states, and such legislation is contrary to the best interests of the profession.

Your committee therefore offers the following resolution for your consideration, and recommends that it be adopted:

"Whereas, there is a tendency when changes are proposed in accountancy laws for those in various accounting pursuits to seek waiver of the written examination to qualify for the certified public accountant certificate, and

"Whereas all state and territorial accountancy laws provide in addition to other requirements that applicants shall pass a written examination for the certified public accountant certificate, and

"Whereas the granting of a certified public accountant certificate without a written examination conforming to the standard which has become uniform throughout the country tends to lower or destroy public confidence in the certified public accountant certificate, not only locally, but nationally, and

"Whereas representatives of commerce, industry, banking, and government have testified to the public need for maintaining high standards for the certified public accountant certificate, therefore

"Be it resolved that the council of the American Institute of Accountants reaffirms its opposition to proposed amendments to accountancy laws which would permit applicants to obtain the certified public accountant certificate without written examination."

We present with this report drafts of model restrictive and non-restrictive accountancy bills and ask that these be accepted for what they are, that is, preliminary drafts of model bills. We suggest that these drafts be circulated for review and criticism among the state society presidents, members of state boards of accountancy, and the board of examiners of the Institute, with the view of presenting revised drafts to the council at the spring meeting in 1944.

Respectfully submitted,

T. Dwight Williams, Chairman
James L. Benson
F. Tillman Brownne
Gilbert F. Dukes
George H. Emery
Samuel W. Eskew
Ellsworth Fulk
Brooks Geoghegan
Don S. Griffith
James E. Hammond
Lyle W. Hines
Roland B. Keays
Procter H. Kerr
Theodore Krohn
Carl W. Lutz
C. F. Milledge
Spencer Over
J. Carle Parry, Jr.
Weldon Powell
Dick D. Quin
Anthony J. Yocis

October 6, 1943
To the Council of the
American Institute of Accountants:

Gentlemen: In addition to several informal conferences between individual members of this committee and the staff of the American Institute of Accountants, a formal committee meeting was held at the Detroit Athletic Club, Detroit, Michigan, on Sunday, April 4th. The following were present: Messrs. Carey, Winton, Russell, Stans, and Gilman.

At this meeting the committee, aided by the Institute staff, developed the following tentative outline for the 56th annual meeting of the American Institute of Accountants to be held at the Waldorf-Astoria Hotel, New York City, from October 18 through 21, 1943:

Monday (Oct. 18)
Group meetings. (Council, Accountability Examiners, Advisory Council of State Society Presidents, etc.)

Tuesday (Oct. 19)
Morning:
Business session.
(This is the only business session which has been provided to take care of elections, selection of meeting place, by-law amendments, etc.)

Afternoon: Postwar Planning.
Address on "War Economy and Postwar Planning."
Paper on "Postwar Financing of Business."
Paper on "Accounting Practice after the War."
Paper on "Cost Accounting in Relation to Profits after the War."
(Victor H. Stempf, of Touche, Niven & Co., New York, has accepted the chairmanship of this meeting and a tentative list of speakers has been agreed upon.)

Evening: Problems of Wartime Practice of Accounting.
Paper on "Selective Service."
Paper on "Wages and Hours."
Paper on "Limitation or Expansion of Accounting Services."
Paper on "Staff Replacements and Staff Training."

Paper on "Provisions for Staff Members in Military Service."
(The chairman for this session yet to be appointed. The session itself is to be devoted to operating problems of professional practice and, in so far as possible, will be presented according to the case method.)

Wednesday (Oct. 20)
Morning: Presentation of Financial Statements.
Paper on "Problems of Presentation Created by Taxation."
Paper on "Problems of Presentation Created by the War."
Paper on "Presentation from the Viewpoints of Classifications and Sequences."
(Norman J. Lenhart, of Lybrand, Ross Bros. & Montgomery, New York, has consented to serve as chairman of this meeting. A tentative list of speakers has been prepared.)

Afternoon: War Contract Problems.
Paper on "Termination Procedures."
Paper on "Target Clause Contracts."
Paper on "Unbilled Costs and Inventories."
Paper on "Differences in Cost Definitions."
Paper on "Salaries Paid by War Contractors."
Paper on "Specific Auditing Problems."
Paper on "Initial Expenses and Losses on Fixed-Price Contracts."
(Edward D. Bailey, of Ernst & Ernst, Detroit, has consented to serve as chairman of this meeting. A tentative list of speakers has been agreed upon.)

Evening: Free.

Thursday (Oct. 21)
Morning: Case Studies in Renegotiation and 722 Claims.
(This will be a panel session the outline for which is in process of preparation.)

Afternoon: Federal Taxes.
Paper on "Pension Plans and Profit Sharing Trusts."
Paper on "Estate Planning."
Paper on "Carry-back and Carry-forward of Net Losses."
Paper on "Provisions of the New Law."
(Chairmanship to be arranged. A tentative list of speakers has been agreed upon.)

Evening: Banquet
(The committee recommends that one principal speaker be selected and that the speaker be requested to talk on some subject of general rather than specific technical interest.)

It will be observed that the pattern of previous technical sessions has been somewhat altered. Round tables, as such, have been omitted from the program since the committee believes that this year, particularly, professional problems cannot easily be departmentalized. The question box, which has heretofore been a popular feature, has also been abandoned in favor of the Tuesday evening session devoted to case studies.

Because of the uncertainties of wartime travel, the committee will to a reasonable extent confine its selection of speakers to those who are within easy traveling distance of New York.

Formal approval of the executive committee of the council of the American Institute will be sought for the proposed change which limits the business session to a single morning.

Respectfully submitted,
Stephen Gilman, Chairman
April 24, 1943

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: With but moderate changes, the tentative program described in our midyear report was completely organized and printed copies thereof were distributed to Institute members during the last week of September.

Your committee's labors were definitely lightened by the wholehearted cooperation of the session chairmen and of the American Institute staff.

The experimental reduction in the size of the committee from five to three members has been entirely successful. We recommend continuation of this plan.

Respectfully submitted,
Stephen Gilman, Chairman
Donald M. Russell
Maurice H. Stans
October 4, 1943

Report of the Committee on Terminology

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: In its report of October, 1942, the terminology committee discussed the nature of depreciation and outlined the sort of definition to which its discussion seemed to point. It deliberately refrained from any attempt to formulate a definition and, instead, invited comments and suggestions.

The response to this invitation was less extensive than had been hoped. However, the committee received from the chief accountant of the Federal Power Commission a criticism of the discussion and a copy of a definition which was under consideration by the National Association of Railroad and Utilities Commissioners. The chairman of this committee immediately offered to publish the proposed definition with comments, but suggested alternatively that the Institute should be given an opportunity to comment on the NARUC committee's report as a whole in advance of its publication. This suggestion was favorably received by the chairman of the NARUC committee. In the event, the In-
stitute, in common with other bodies, was given only the briefest opportunity to consider the draft report and it was impossible, in the time of not more than a week that was allotted, to call a meeting of either the committee on accounting procedure or the committee on terminology to deal formally with the matter. This committee, therefore, felt that it was desirable to continue its own activities independently.

In the September issue of *The Journal of Accountancy*, a further attempt to elicit comments was made through the publication of a suggested definition, criticisms of which were invited. A considerable number of letters have been received and various shades of opinion expressed. The committee particularly desires to acknowledge receipt of helpful and constructive criticism from the chief accountant of the Securities and Exchange Commission.

The committee believes that the best procedure would be to take as the initial subject of definition, "depreciation accounting," and to go on to describe the various senses in which the words "depreciate" and "depreciation" are used in connection with such accounting.

Depreciation accounting is clearly a special technique (like cost accounting or accrual accounting). It can be sharply distinguished from the replacement system, the retirement system, the retirement-reserve system, and the appraisal system, all of which have been employed in American accounting during the last half century in dealing with the same subject matter. Depreciation accounting, like accrual accounting and cost accounting, may take one of a number of different forms. The term is broadly descriptive of a type of process, not of an individual process, and only the characteristics which are common to all processes of the type can properly be reflected in a definition thereof. These common characteristics are, that a cost or other basic value is allocated to accounting periods by a rational and systematic method which, however, does not attempt to relate the sum allocated to an accounting period, to either the occurrences affecting the length of life or the changes in value of the property within the period. Definitions which imply that "depreciation for the year" is a measurement, expressed in monetary terms, of the physical deterioration or of the decline in value within the year, or, indeed, of anything that actually occurs within the period, are unacceptable. The annual charge is an allocation to the year of a proportionate part of a total cost or loss estimated with reference to a longer period. Depreciation accounting has other characteristics which, however, it may be unnecessary to mention in a primary definition.

Definitions along such lines indicate the technical usage of the word "depreciation" in accounting and prepare the way for further definitions, the most important of which is, perhaps, the expression "annual depreciation" or "depreciation for the year." The Supreme Court, after defining depreciation, added: "Annual depreciation is the loss which takes place in a year." This statement is not applicable to the term "annual depreciation" as used in accounting. In that usage, annual depreciation, or depreciation for the year, is the portion of the estimated total depreciation that is allocated to the year, and as already noted, this amount has no necessary relation to either the occurrences within the year or the changes in value during the period.

In its last report, this committee said that the word "depreciation" was sometimes used to connote the causes that give rise to a cost or a loss, but suggested that its primary use should be to describe the cost or loss rather than the cause thereof. An examination of current accounting literature shows that the words "depreciate" and "depreciation" are used in a variety of senses—thus the word "depreciate" is used in a transitive sense to indicate that property is dealt with by a depreciation process rather than by some other method of accounting, just as "accrued" has come to be used in a transitive sense. "Depreciation" is used to describe the act of depreciating in the transitive sense as well as the phenomenon of depreciating in the intransitive sense. It is used in the income account to describe a charge made, or in the balance-sheet to describe an accumulated balance in respect of property still carried on the books.
Questions have been raised as to the description in a definition of the property accounts to which depreciation accounting is applicable. In the definition submitted for criticism by the research department the expression "instruments of production or distribution" was used. Correspondents have raised interesting questions on this point. It has been suggested, for instance, that depreciation accounting may be applied to a building held for sale. It may be questioned whether a building held for sale is a proper subject for depreciation accounting or whether the treatment thereof should not be covered by the rules governing investments and similar assets held for sale. In that event the word "depreciation" would be applicable to it only in the sense of a fall in value, since the most approved basis for carrying it would be cost or market value whichever is lower. Only so long as the building is regarded as an instrument of production or distribution would depreciation accounting seem to be properly applicable to it.

A number of questions have been raised regarding the expressions "provision for depreciation" and "estimated depreciation." An objection to the expression "provision for depreciation" is that commonly urged against the use of the word "provision"—that to many it implies that something more has been done to provide for depreciation than merely to make an accounting entry. An objection may be made to the word "estimated" on the grounds that it may encourage the belief that the charge represents an attempt to express in monetary terms the effect of occurrences within the year, whereas the charge is only an allocation of an estimated cost or loss in respect of a longer period.

Much of the confusion and many of the misapprehensions that have arisen in respect of depreciation accounting would, as the committee's report of last year suggested, be obviated by the substitution of some such word as "amortization" for "depreciation." The use of the latter word to describe a fall in value is so widespread and so well justified by the root meaning of the word that it is unreasonable to expect that the technical accounting use of it will result in the complete abandonment of the use of the word in the popular sense, even in accounting.

The committee suggests for adoption by the committee on accounting procedure the attached definition and comment.

The committee has also given much consideration to the use of the terms "current assets" and "current liabilities." Wartime policies, such as that reflected in the V loan, have created new problems in this field. At the same time, covenants relating to the maintenance of net current assets exist which provide that the amount thereof shall be determined in accordance with accepted accounting principles; therefore, changes in practice should not be lightly made. The committee concluded that the best approach to the problem would be to publish an extended discussion of the subject and invite comment thereon. Mr. Herrick undertook to prepare such a memorandum, which has now been completed and will appear in an early number of The Journal of Accountancy. The committee hopes that comments upon this article will be freely submitted, in which both the immediate and long-run aspects of the problem will be considered. It hopes that in the light of criticism it may be possible to make specific suggestions in a later report.

APPENDIX

Depreciation Accounting

Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation. Depreciation for the year is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to be a measurement of the effect of all such occurrences.
NOTE.—This method of accounting may be contrasted with such systems as the replacement, the retirement, the retirement reserve, and the appraisal methods of recognizing the fact that the life of tangible capital assets is limited.

The words "depreciate" and "depreciation" are used in various ways in connection with depreciation accounting. The verb is used in a transitive as well as in an intransitive sense (cf. the use of accrue in accrual accounting); the noun is used to describe not only the process but also a charge resulting from the process or the accumulated balance of such charges. It is also used to describe the exhaustion of life which gives rise to the method of accounting.

In all these uses, the meaning of the word is sharply distinguished from the sense of "fall in value" in which the word is employed in common usage and in respect of some assets (e.g., marketable securities) in accounting.

Respectfully submitted,

GEORGE O. MAY, Chairman
ANSON HERRICK
WALTER A. STAUB
October 18, 1943

COMMITTEES ON WAR ACTIVITIES

Reports of the Committee on Accounting and Statistical Reports by Industry

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The committee on accounting and statistical reports by industry has had no meeting since January 28, 1943.

The chairman accepted membership on an exploratory subcommittee on financial reporting forms at the request of W. J. Donald, chairman of the supervisory committee on government questionnaires. This exploratory subcommittee, of which H. T. Winton is secretary, held a meeting on February 26, 1943, at which were present various members of the committee and William M. Cooper, economist, Bureau of the Budget. At this meeting it was agreed that there were possibilities of standardizing information called for on balance-sheets and profit-and-loss statements for the use of federal agencies.

Subsequent to that meeting, the Bureau of the Budget has submitted a preliminary study as to data now requested by federal agencies on balance-sheets and profit-and-loss statements, and a meeting for consideration of this data will be held in the near future.

Respectfully submitted,

C. OLIVER WELLINGTON, Chairman
April 1, 1943

ANNUAL REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: Since the committee on accounting and statistical reports by industry reported to council in May, the committee has held no meeting.

The chairman is a member of the exploratory subcommittee of the advisory committee on government questionnaires, a national committee which serves in an advisory capacity to the Bureau of the Budget. A meeting of the subcommittee was held at the offices of the Institute on May 28th.

There is a definite and unnecessary lack of uniformity in the financial statements now being requested by various government agencies.

The committee believes that the Bureau of Budget should be supported in its drive to bring about a standardization in financial statements.

It recommends that a permanent subcommittee be created to advise with the Bureau of the Budget in the design of
standard financial statements and to support it in its efforts to obtain acceptance of the standard statements by the various government agencies.

That the permanent subcommittee should include representatives of at least the following organizations, industries, or groups:

American Institute of Accountants
Controllers Institute of America
National Association of Cost Accountants
Controllers Congress
Small business representatives
Public utilities
Oil or extractive industry

That the subcommittee be authorized to explore the relation of standard financial statements with requirements of specialized industries, and

That the subcommittee work closely with the Bureau of the Budget in making available to the Bureau specialized assistance with respect to such problems of accounting and reporting as they arise.

Subsequent to the meeting the chairman of the advisory committee on govern-

ment questionnaires appointed a permanent subcommittee on financial reporting forms, of which the chairman of the Institute’s committee is a member and H. T. Winton is secretary.

Charles W. Hatter, of Baltimore, and Wayne Kendrick, of Washington, D. C., members of the American Institute of Accountants, have been appointed to the advisory committee’s subcommittee on accounting forms to small business units. Wayne Kendrick has served as chairman of this subcommittee which has, to date, directed most of its attention to OPA reporting forms and has recommended that the Bureau of the Budget discourage, so far as is possible, interim reports for small business.

Respectfully submitted,

C. Oliver Wellington, Chairman
George Cochrane
Warren W. Nissley
October 11, 1943

Reports of the Committee on Accounting Manpower

MIDYEAR REPORT

To the Council of the

American Institute of Accountants:

Gentlemen: For the duration of the war the most vital problem of most occupational groups will be manpower. The laws and regulations relating to the use of manpower in the armed forces and elsewhere are complex. In this report the committee on accounting manpower presents a statement of what it has done to bring about consideration of accountants in the administration of such regulations, and also a statement of what it believes to be the important current factors affecting the utilization of accounting manpower in the best interests of the nation at war.

What the Committee Has Done

At the time of the annual meeting of the Institute, word reached its officers that a revision of Selective Service Occupation Bulletin No. 10 was under consideration. As the present committee on accounting manpower had not then been appointed, the president and secretary of the Institute went to Washington to discuss the matter with appropriate officials of the War Manpower Commission. It was found that “accountant” had proved so difficult a term to define, being used by bookkeepers and clerks as well as trained and experienced professional accountants, that the authorities had definitely decided to eliminate “accountant” from the list of essential occupations in Bulletin No. 10. The Institute’s officers convinced the War Manpower Commission representatives that some provision should be made for occupational classification of trained and experienced professional accountants, with the result that “certified public accountant” was included in the list of essential occupations in Selective Service Occupational Bulletin No. 43, which dealt with technical, scientific and management services. A copy of this new Bulletin No. 43 was sent to all members and associates of the Institute on January 6, 1943.

Following the issuance of the Executive Order of December 5th, providing among
other things that the chairman of the War Manpower Commission should take all lawful and appropriate steps to assure that all hiring and recruitment of workers in any defense industry or defense area should be conducted through the United States Employment Service, and that no employer should retain in his employ workers whose services were more urgently needed in any place designated as more essential by the chairman of the War Manpower Commission, the Institute committee on accounting manpower conferred with Paul V. McNutt, chairman of the Manpower Commission on December 21, 1942, in an effort to secure an interpretation of the order as applied to professional accountants. Mr. McNutt stated that the Commission did not contemplate drafting, freezing, or allocating professional workers under this order, and that no action along this line was expected in relation to accountants. If such action should be necessary at a later date, he suggested that the National Roster of Scientific and Specialized Personnel would probably be the agency which would deal with professional accountants, and he suggested that the Institute committee confer with officials of the Roster.

In accordance with this advice, the chairman of the Institute's committee and the secretary of the Institute had several conferences, in some of which the other members of the Institute committee participated, with various officials of the National Roster of Scientific and Specialized Personnel, who have displayed an intelligent and sympathetic understanding of the problems with which technical and professional groups are faced under present conditions. As a result of the earlier of these conferences, the Institute's committee sent to all members and associates under date of February 26, 1943, a letter suggesting that all members and their professional employees register with the National Roster, which is the principal agency of the government directly concerned with the orderly allocation of technical and professional manpower to fulfill essential civilian and military needs. This letter to the membership also included Selective Service Local Board Release No. 159, which provides for the establishment of national committees in scientific and specialized fields, authorized to review affidavits for occupational classification, to advise Selective Service local boards of their conclusions, and to appeal from decisions of local boards.

The Institute committee submitted to the National Roster a request that such a national committee be established for accountants under authority of Selective Service Local Board Release No. 159. After conferences on this question, it was the conclusion that a necessary preliminary step to the establishment of such a committee would be a survey of the accounting profession to determine by statistical evidence whether or not a critical shortage of trained and experienced personnel in this field existed. Evidence of such a shortage is a condition precedent to the appointment of such a committee, and such evidence must be more than opinion evidence. The existence of the shortage is known to all practicing accountants but that knowledge must be translated into statistical proof.

With the cooperation of the Institute, the National Roster has drafted a questionnaire for the purpose of such a survey, and this questionnaire was reviewed and criticised by the entire Institute committee at a meeting in Washington, April 27, 1943. Roster officials at that time stated that the War Manpower Commission had approved the project and that, subject to specific approval of the questionnaire form by the Bureau of the Budget and the War Manpower Commission, the survey would probably be undertaken about the middle of May. If the survey indicates a critical shortage, it is the hope of your committee that the next step will be the establishment of a national committee on accountants, which will review affidavits for occupational classification (Form 42 or 42A), will advise local boards of committee conclusions, and appeal from local board decisions when necessary.

In the meantime, Occupational Bulletin No. 43 was superseded as of March 1, 1943, by Activity and Occupation Bulletin No. 35, one of a complete new series of thirty-five bulletins issued in an effort to present in an orderly and consistent manner all the information bearing on occupational classification under Selective Service which had been issued in earlier occupa-
tional bulletins and local board releases. Copies of the new Activity and Occupation Bulletin No. 35 were sent to all members and associates of the Institute under date of March 24, 1943. This bulletin includes “accounting services” (when supplied to the war-production program and to activities essential to support of the war effort) in a list of essential activities, and also includes “certified public accountant” in a list of technical, scientific, and labor-relations services, which are classified as essential occupations. The bulletin does not, however, state that a shortage exists in this particular group of occupations, although it does state that a serious shortage exists in another group of occupations in scientific and specialized fields, also listed in the bulletin as essential. Activity and Occupation Bulletin No. 35 also incorporates the provisions of former Local Board Release No. 159 relating to the formation of national committees in scientific and specialized fields, and contains new material outlining the function of the National Roster of Scientific and Specialized Personnel in advising Selective Service as to the qualifications of persons registered with the Roster who may be considered for reclassification by Selective Service local boards.

If the survey conducted by the National Roster indicates a critical shortage of personnel in the accounting profession, it is your committee’s hope that Selective Service National Headquarters will inform local boards that the shortage is officially recognized.

The National Roster found that many persons who did not meet professional standards had filed with the Roster. The Institute’s committee was requested to recommend changes in the questionnaire which might assist the Roster in weeding out clerical workers and others whose records should not be included in the National Roster and to make the recommended changes in the earlier technical accounting check list which the Institute had assisted in drafting in the spring of 1941. A new technical check list for accountants has been adopted in which most of the committee’s recommendations have been incorporated, and which we understand may serve as a pattern for other professional groups.

On February 11, 1943, Senator Kilgore of West Virginia introduced Senate Bill 702, of which the Institute immediately was informed by its counsel. This bill, whose purpose is to mobilize the technical and scientific resources of the nation, contains a provision which would authorize the administrator of the Office of Scientific and Technical Mobilization, created by the bill, to determine, subject to approval of the chairman of the War Manpower Commission, whether occupational deferments should be granted to persons engaged in scientific or technical occupations, such determination to be conclusive upon civilian local boards. The bill, also, would create the Office of Scientific and Technical Mobilization and transfer to it the powers, personnel, and facilities of the present National Roster of Scientific and Specialized Personnel. Believing this provision to be desirable, the committee on accounting manpower, with permission of the executive committee, appeared before the Subcommittee on Scientific and Technical Mobilization of the Senate Committee on Military Affairs, April 27, 1943, and testified in support of this provision. Copies of the committee’s statement have been sent to all members of council, and to state society presidents.

In addition to the activities mentioned above, consideration has been given to the effect of the 48-hour week, and the wage and job-stabilization orders, on the utilization of accounting manpower, and the best information and suggestions available have been transmitted to the membership through The Certified Public Accountant and The Journal of Accountancy.

**Current Factors Affecting the Utilization of Accounting Manpower**

**Selective Service**

It is expected that about August, 1943, married men with children will become subject to call for military service. Men between the ages of 38 and 45 are now subject to induction whenever the Army indicates it can utilize them. In these circumstances, it is possible that the accounting profession could be subjected to such severe losses of personnel that it would be unable to continue its essential services to the war-production program and other ac-
tivities essential to support of the war effort. Occupational deferment is the only protection against this possibility.

At present, accounting firms may seek occupational deferment for their principals or employees only through local draft boards, or through the use of replacement schedules filed with state directors of selective service. In filing affidavits with local draft boards (Form 42 or 42A) careful study should be given to the provisions of Local Board Memorandum No. 115, as amended March 1, 1943, which states the over-all policies governing occupational classification, as well as to Activity and Occupation Bulletin No. 35, which refers specifically to accounting services and to certified public accountants. Form 42 or 42A should be accompanied by detailed statements of the work of the registrant, including the essential establishments which he serves, the nature of his work, an outline of his training and experience, and evidence of a shortage of persons with equivalent training and experience, and of the employer's inability to replace him. Failure to submit satisfactory evidence on any of these points may result in denial of a request for occupational classification to one fully entitled thereto under the applicable law and regulations. The initial record in each case should be prepared in sufficient detail so that in the event of an appeal no further data need be submitted. Employers should seek opportunities to appear before local boards to discuss individual cases.

Some firms have reported that they have filed replacement schedules with state directors indicating the degree of essentiality of each employee, and the order in which the employer would prefer that he be withdrawn. In some cases state directors have approved such schedules and indicated periods for which each employee available for military service would be deferred. Such decisions by the state director are binding on local boards. In filing a replacement schedule there is no implicit representation that the employer will be able to replace the individuals named at the expiration of the period of deferment, but there may be an implied representation that the employer will release such employees at the end of that period, and it may be difficult to secure additional periods of deferment in the case of any employee named in a replacement schedule. The committee is studying this question at the present time.

If a national committee on accountants is established under the auspices of the National Roster of Scientific and Specialized Personnel, your committee believes that the occupational classification of trained and experienced accountants actually engaged in essential activities may be facilitated, because uniform standards would be applied by an informed and authoritative central agency. A similar result might be expected from the enactment of legislation embodying the provisions of Senate Bill 702, which have already been described in this report, or provisions equivalent thereto.

The question has arisen frequently whether a professional accountant who is not a certified public accountant may be considered for occupational classification, in view of the fact that Activity and Occupation Bulletin No. 35 refers specifically only to "certified public accountant." This question is answered by the following quotation from Part X, paragraph 3 of Local Board Memorandum No. 115, as amended March 1, 1943:

"The fact that the activity or occupation in which a registrant is engaged is not mentioned in any of the 'Activity and Occupation Bulletins' is likewise not conclusive and if under the general principles laid down in this memorandum a registrant would nevertheless be entitled to occupational deferment, he shall be so classified."

USE OF ACCOUNTANTS IN ARMED FORCES

In any consideration of the problem of accounting manpower, it must be borne in mind that within the armed forces there is a need for enlisted men, non-commissioned officers and commissioned officers with accounting training, and as adjuncts to the armed forces there is a need for a considerable number of civilian workers with accounting training, particularly in the work of cost auditing and analysis under procurement contracts and renegotiation. A similar need exists in civilian war agencies such as the Reconstruction Finance Corporation, F.B.I., etc. War industries and other essential establishments require the services of an irreducible
minimum of trained accountants to establish and maintain their cost and financial records, and their budget, material, and payroll controls; to perform necessary auditing; and to prepare tax returns and other reports to governmental authorities. There are signs that this irreducible minimum has been nearly reached.

Every trained and experienced accountant, therefore, who is inducted in the Army and utilized in a capacity which does not take advantage of his training and experience is a loss to the pool of available accounting manpower and, in a sense, to the Army itself. Other trained and experienced accountants must do for the Army, itself, the job which he could do if he were utilized in the most advantageous manner.

The Adjutant General’s office is responsible for the classification and assignment of inductees. In the ordinary course, accountants are considered eligible within the Army for service in Finance and Quartermaster departments. They are also assigned as company clerks, payroll clerks, and to other jobs which require record-keeping, most of which however are of a nature far simpler than those which they are competent to do. It does not appear that the records of the Adjutant General’s office are sufficiently informative or detailed to make it possible to find a thoroughly competent accountant in the Army when one is needed for a special job, such as cost analysis in connection with renegotiation.

The Institute for about a year has been in touch with the military-classification section of the Services of Supply, and, following conferences at which the arrangement was undertaken, has forwarded from time to time the names of exceptionally well qualified men who were inducted. No information is available to indicate whether or not this information has been advantageously utilized.

The National Roster of Scientific and Specialized Personnel has attempted to aid the assignment of men to tasks particularly suited to their qualifications by advising the Adjutant General’s office, when the Roster was in possession of the necessary information, on the specialized qualifications of inductees. Until recently, only a comparatively small number of professional accountants had registered with the Roster, and only a few accountants, therefore, have been the subject of advice of this nature.

Recently, the price adjustment boards and sections, the Fiscal Branch, Services of Supply, and other departments have requested the Institute to furnish the names of competent accountants within the services whose transfers might be arranged by the division which desired their aid. Accordingly, a letter was dispatched to all members of the council of the Institute, asking for a list of qualified members of their staffs who had been drafted. Names obtained were transmitted to the interested department.

48-Hour Week

Administration of the 48-hour-week order is decentralized. The local administrator must determine whether or not each establishment in the affected areas is in compliance. Public accounting firms having eight or more employees in the affected areas are covered by the order, in the opinion of the Institute’s counsel, but may not be required to extend their work week to 48 hours if the local administrator is satisfied that such action would not release workers, or increase production. Any accounting firm within one of the affected areas which operates on a work week of less than 48 hours must make application to the regional manpower authority and obtain an exemption which will in effect authorize the course of action taken. Some professional firms have extended the work week of their office staffs to the full extent practicable—in one case 42 hours—but have not attempted to stipulate the working hours of the professional staff, which naturally depend on the demands of clients at different periods of the year, and it has been reported that local administrators in some areas have approved such arrangements. The possibility has been mentioned unofficially that efforts to secure occupational classification of employees under Selective Service may be more difficult if no effort has been made to extend the work week of the firm in question.

Wage and Job Stabilization

Members of the Institute generally have reported little difficulty in securing ap-
proval of the War Labor Board, and the Salary Stabilization Unit of the Treasury Department, of salary increases proposed for individuals who have been reclassified or have assumed greater responsibilities, or in accordance with a regular plan or schedule effective in the past.

The job-stabilization orders issued pursuant to the President’s "hold-the-line" order of April 8, 1943, may raise questions as to the propriety of change of employment by professional accountants. The order applies to all activities listed as essential by the War Manpower Commission, which include accounting services supplied to the war-production program and other activities essential to the support of the war effort. The order prohibits changes of employment from essential to non-essential activities at higher compensation. Changes from one essential activity to another essential activity at higher compensation are prohibited unless an employment-stabilization program is in effect in the area concerned and the change would be consistent with such program. Penalties for violation of this order are heavy. Administration of the order is decentralized, and in certain areas employment-stabilization programs with varying provisions are in effect. It appears, therefore, that no professional accountant should change his job, and no employer should offer a new job to a professional accountant not already in his employ without being fully satisfied that the provisions of the order and regulations have been complied with, which in most cases will require consultation with the area or regional administrator. Information on this subject may be secured from local offices of the United States Employment Service.

Respectfully submitted,

JOHN A. LINDQUIST, Chairman
May 4, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Successive changes by the War Manpower Commission and by Selective Service Headquarters, in regulations pertaining to Selective Service and the interpretation of the regulations, have required continued and almost continual activity on the part of your committee on accounting manpower. Members of the committee and the secretary of the Institute have had conferences at Washington and elsewhere since the meeting of council last May. Through special mailings to members of the Institute, letters to presidents of state societies of certified public accountants, and editorials in the columns of The Certified Public Accountant and The Journal of Accountancy, an effort has been made to keep the profession informed of developments in this important field.

The most important recent development for professional accountants in the matter of Selective Service has been the release of Selective Service System Local Board Memorandum No. 115, as amended August 16, 1943, including a list of critical occupations. Copies of this memorandum have been sent to all members of the Institute.

Certified public accountants, or their equivalent, are included in this list. This was accomplished only after unremitting work by your committee. The difficulty of distinguishing between accountants at a professional level and those engaged in routine activities, and the difficulty of relating the work of professional public accountants to war production or other essential activities, had convinced some officials of the War Manpower Commission that accountants should be dropped from the list. Those in authority were ultimately convinced, however, that certified public accountants, and non-certified accountants with comparable training, experience, and responsibilities, should be included in the category of critical occupations.

The result is that accountants who possess certified public accountant certificates, and those of equivalent training, experience, or responsibilities, are now included in the list of critical occupations; and professional accounting services rendered to war production or to other activities essential
to support of the war effort are included in the War Manpower Commission's index of essential activities.

The language of Local Board Memoranda Nos. 115, 115A, and 115B indicates a determination on the part of the War Manpower Commission and Selective Service Headquarters to encourage, more vigorously than ever before, occupational deferment for those on the critical list who are in essential activities.

The inevitable differences of interpretation and application by decentralized Selective Service administration, however, remain to be dealt with. Members of the Institute have reported that Selective Service local boards, appeal boards, state directors of selective service, and local offices of the United States Employment Service (which have been newly introduced as agencies for evaluation, in certain circumstances, of the qualifications of professional accountants), have made decisions in individual cases considered for occupational deferment in a manner contrary to your committee's understanding of the national policy as enunciated by the memoranda to which reference has been made. There seem to be two ways of remedying this difficulty. First, through a vigorous campaign of education of local boards, appeal boards, state Selective Service Headquarters and offices of the United States Employment Service, by state societies of certified public accountants and their chapters. For two years the Institute through its committees has been going over the same ground with various officials in Washington, explaining why accounting on a professional basis is essential to the war effort; that qualified accountants cannot be replaced; and, therefore, that occupational deferment is proper, and necessary, when trained and experienced accountants are rendering services to war production or to activities essential to the war effort. The same ground must be gone over with every local official who has authority to interpret the regulations if equitable decisions are to be expected in all cases; and that can be effectively done only by the state organizations of certified public accountants. Second, if in individual cases local authorities make decisions which are not in conformity with the policy enunciated by National Headquarters of the Selective Service System, such cases should be referred to National Headquarters.

Inclusion of certified public accountants or their equivalent in training and experience, in the critical list was partly influenced by the results of a survey undertaken at the Institute's suggestion by the National Roster of Scientific and Specialized Personnel, which indicated a shortage of trained and experienced accountants among the public accounting firms of the United States. A report summarizing and interpreting the facts developed in this survey is expected to be released soon; when it is, it will be published in The Journal of Accountancy.

A difficulty which arises in determining whether or not an individual accountant is eligible for occupational deferment is an evaluation of his qualifications. Your committee on accounting manpower has suggested a description of an accountant possessing training, experience, or responsibilities equivalent to those of a certified public accountant. This description has been submitted to the presidents of all state societies of certified public accountants and has been published in The Certified Public Accountant for September, 1943. Copies have been sent to the War Manpower Commission, of which the Selective Service System is a part.

Another difficulty is the development and application of a standard by which local boards may determine whether or not, and to what extent, an individual accountant is rendering accounting services to war production or to other activity essential to support of the war effort, and is, therefore, engaged in essential activity. Your committee has made an effort, so far unsuccessful, to find a generally applicable answer to this question acceptable to the War Manpower Commission. It has been suggested that this question can be answered only in the light of the circumstances of each individual case. At least one state official has been reported to have held that an accounting firm and any of its employees, to be considered essential, must show that 100 per cent of the firm's clients are engaged in essential activity to the extent of 75 per cent of their facilities. This seems to your committee a ridiculous and impracticable standard which nullifies the intent of the regulations. On the
other hand, an office of the United States Employment Service, in another city, is reported to have stated that as a rule of thumb it had adopted a rule that if 50 per cent or more of the work of an accounting firm was done for clients in war production or other activity essential to support of the war effort, the firm itself would be regarded as in essential activity. These illustrations of the divergencies of interpretation that result from decentralized administration emphasize that the problem of local application of the national policy must be worked out in each locality. The committee cannot too strongly urge that members of the council and the presidents of the state societies take immediate action in that direction.

Local offices of the United States Employment Service have become of increased importance to the profession not only because Local Board Memoranda Nos. 115A and 115B designate them as the agencies to evaluate claims for deferment by Selective Service registrants in critical occupations, but also because under War Manpower Commission Regulation No. 7, local United States Employment Service offices will control employment in essential activities, and in some localities will be the agency of the War Manpower Commission that will be called upon to determine whether or not individual accounting firms are to be considered as engaged in an essential activity; a further reason why it seems important that state societies discuss the problems involved with officials of the United States Employment Service offices.

A number of accounting firms have reported that they have filed replacement schedules with their State Directors of Selective Service and have been well satisfied with the results. The Institute's committee on accounting manpower has made no general recommendation with respect to replacement schedules because of variations of procedure in different localities and in the circumstances of different accounting firms.

The staff of the Institute has continued to coöperate in efforts to place accountants already in the armed forces in lines of work in which their professional training could be utilized.

Respectfully submitted,

John A. Lindquist, Chairman
Frank Wilbur Main
Leland G. Sutherland

October 15, 1943

Reports of the Committee on Government Audit of Contractors' Costs

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: This committee is an outgrowth of that which was known last year as the committee on coöperation with the Fiscal Division, Headquarters, Services of Supply, War Department. The change in name is merely a recognition of the fact that the committee's activities were not confined to the War Department alone. While the chief work of the committee has continued to be with the War Department, it has had contacts with and been consulted by the Navy Department. Close coöperation on cost and audit matters between the War and Navy Departments and the fact that these problems in each department are in the hands of professional accountants of the highest standing are conducive to the utilization of the services of the committee by either department if the occasion arises.

Since the last report, the committee has been asked by Major General Arthur H. Carter and his associates to consider and advise with respect to a number of specific cost interpretations applicable to CPFF supply contracts for the guidance of the War Department. Eleven such interpretations have since been issued by the Fiscal Division. While such cost interpretations must of necessity be made in the light of requirements of the War Department, the fact that a procedure has apparently been established whereby views of the professional accountant are obtained before the
interpretations are issued, seems to us to be quite significant.

More recently, the committee has been asked to consider drafts of a War Department manual for administrative audit of termination claims of fixed-price supply contractors. This manual will deal with the audit and accounting problems involved in termination claims. The review of a draft of this manual was made in the course of a two-day committee meeting in Washington with representatives of the War Department. This meeting, in addition, gave consideration of policies either necessary for the practical working out of the audit procedures or necessary to implement those procedures. Termination claims are certain to involve difficult accounting problems and determination of proper cost accounting practices. It is believed that a means can be found whereby the profession can participate in an advisory or consulting capacity as such points are resolved by the War Department and other procurement agencies. The committee believes it highly important to the government in the interest of prompt settlement that the pronouncements on accounting or cost practices be determined in the light of generally accepted accounting principles and a full knowledge of business practices. The committee addressed a letter to the War Department, giving its recommendations. A copy of this letter is appended hereto and made a part of the report.

In a somewhat different field, the committee was asked to consider how the Institute might be of assistance to the Air Forces with respect to the audit programs being followed by their representatives in the audit of major CPFF contracts, especially as to the examination of internal controls and the effect thereof on audit procedures. After some difficulty, it appears that the use of public accounting firms in that connection may be attempted on a limited basis. If successful, this may lead to an extension of this service to additional projects, although the shift in emphasis from CPFF contracts to fixed-price contracts, as manufacturing becomes stabilized, may reduce the need for such help.

The pleasure which the members of the committee have had in working on these matters has been due in no small part to the welcome accorded the committee by General Carter and the other professional accountants in the Fiscal Division of the War Department, and those in the Navy Department.

Respectfully submitted,

GEORGE D. BAILEY, Chairman
May 1, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The activity of the committee since the spring meeting of council has been devoted entirely to problems connected with termination of government contracts. It had an additional opportunity to present its views on the War Department accounting manual for use in connection with termination of contracts, before the manual was issued.

The recommendations of the committee, as reported to the last meeting of council, concerned chiefly matters of procedure and administration rather than accounting principle, but were pointed to the accounting and auditing problems thereof. Procurement Regulations No. 15, as issued by the War Department do not deal specifically with many of those problems, partly because they involve interdepartment relationships, partly because the answers have not been worked out, and partly because, it seems to us, the importance of the accounting and auditing involved is not yet recognized. Representatives of the committee have had the opportunity of discussing termination problems with representatives of the War and Navy Department, and expect to have further opportunities to present the views of accountants on those points.

The preparation of termination claims presents a distinct challenge to the accounting profession. It is obvious that there is no probability that claims can be prepared and certified by certified public accountants and accepted by governmental
agencies as final and binding without further review. The independent public accountant, however, will be called upon by his clients to advise in the preparation of termination claims, and in many cases to do the actual work of preparation. In other cases he may be asked to sign a report thereon. It seems to the committee that the future standing of the profession will be immeasurably affected by the willingness of the profession now to assume the responsibilities that go with such opportunities, first, to be thoroughly familiar with the rules and regulations and manuals of the procurement services, and second, to be as completely independent and objective in this work as in any other work to be submitted to third parties.

It is the belief of the committee that the American Institute of Accountants has an obligation (1) to do everything it can to help to familiarize the profession with the governmental requirements for the preparation of termination claims and (2) to suggest auditing standards properly applicable in the circumstances that accounting work may be kept to a minimum.

The committee recommends that the Institute undertake an extensive campaign of information during the next few months. The committee on auditing procedure has been considering standard auditing procedures and will undoubtedly report thereon.

The committee intends to make additional or revised suggestions with respect to the accounting and auditing aspects of the termination problem to the governmental departments or agencies concerned therewith as soon as practicable.

Respectfully submitted,

GEORGE D. BAILEY, Chairman
SAMUEL J. BROAD
JOHN B. INGLIS
CHARLES W. JONES
DONALD M. RUSSELL

October 18, 1943

Reports of the Committee on Methods of Limiting War Profits

MIDYEAR REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee has undertaken no sponsorship of methods of limiting war profits; it has been alert to observe trends, has kept its finger on the pulse of developments in Washington, and has maintained reasonable contact with representative industrial trade associations.

CONTACTS WITH PRICE ADJUSTMENT BOARDS

Members of the committee have repeatedly visited Washington and also have conferred with representatives of the price adjustment boards while in New York. Conferences have been held with Mr. Karker and others in the War Department, and with Mr. Rockey and others in the Navy Department, discussing reactions and doubts observed among industrialists, and seeking disclosure of the evolving administrative policies of the price adjustment boards. Similar conferences have been held with Carman G. Blough of WPB, who is liaison member of all price adjustment boards. Incidentally, an article for publication in The Journal of Accountancy [March, 1943, issue] was obtained from him.

UNIFORMITY OF PROCEDURE

It was difficult until recently to pierce the veil of mystery shrouding the administration of the Act. Obvious differences of approach and policy existed as between the War and Navy Price Adjustment Boards, which justified the public criticism of lack of uniformity. While admittedly the very purpose of renegotiation is to afford recognition of the diversity between industries and the variations within them, making complete uniformity and certainty impossible, there is every reason to demand basic uniformity as to the purposes, principles, policies, and interpretations of the Act. This has been accomplished now by the cooperative efforts of the boards through the joint statement issued March 31, 1943, by the four departments. The committee considered this document of such importance that it had reprints made
for distribution to members of the Institute early in April in order that they might be informed as promptly as possible. In some small measure, the committee believes that it has fostered this development.

INITIAL REPORTING

During December, 1942, the committee studied with care a form of "Proposed Return of Information for the Purpose of Determining Excessive Profits Subject to Renegotiation," which followed largely the outline of the federal corporate income-tax return. While the approach seemed logical, the form was far too elaborate to encourage voluntary compliance. It was intended to enable elimination of cases clearly not subject to renegotiation by reason of character of business or nominal profits, whereas the form required practically all the information needed to reach a renegotiation conclusion. The time required to prepare it would have been grossly disproportionate to its intended use.

The committee recommended instead an initial inquiry reduced to seven questions:

(1) Financial statements for the year, preferably certified.
(2) Brief description of company's business.
(3) Statement of company's participation in war effort; whether it had any contracts with the four departments, for production of, or service upon, any articles, with brief description thereof; similar data as to other sales having war end-use.
(4) Statement of income showing separately: cost of sales, selling and advertising expenses, administration expenses, profits before federal taxes on income, any reserves not currently deductible for tax purposes, and any other specific reserves of special significance.
(5) A general estimate of proportion of sales completed and paid prior to April 28, 1942, or otherwise not subject to renegotiation, and a statement of bases of apportionment made.
(6) Statement of approximate amount of profit on CPFF contracts, if any.
(7) Reconciliation of income shown in accompanying statement with that reported for taxable income.

Finally, the recommendation was made that whatever initial reporting might be devised should be uniformly adopted by the four departments. Just recently the price adjustment boards jointly adopted an initial mandatory report (24-19082) which in general follows the foregoing recommendations.

EXTENSION OF FORWARD PRICING CONTRACTS

In February and early March of 1943, at the request of our president, Mr. Olive, who is a member of the War Department Purchase Policy Advisory Committee, your committee considered and disapproved extended adoption of quarterly price adjustment in lieu of renegotiation, deeming it impractical in complex situations involving varied products and intricate cost allocations. While these forms of "forward pricing" contracts have had some introduction by Ordinance, they have been developed to apply to articles in respect of which it is assumed that adequate and accurate cost data are currently available. As to such articles, the contract proposes a price to remain fixed for three or four months, at the end of which time a new and reduced price will be fixed based on actual costs for the preceding period, but permitting the contractor to retain cost savings of such prior period; contemplating also a close price with a narrow margin, and reliance upon managerial and engineering skill to improve methods and efficiency. The April 15, 1943, NACA Bulletin has an interesting outline of the system. Viewing current trends realistically, it is recognized that very few companies maintain costs sufficiently detailed to meet such requirements. In addition, internal operating reports are now increasingly delayed. Accordingly, the committee recommended that the proposal be restricted to appropriate cases where contractors confidently believe they are able to meet periodic demands for costs satisfactorily and expeditiously.

RENEGOTIATION v. PERCENTAGE LIMITATION

In all of its contacts, the committee has continued to support the concept of renegotiation as opposed to fixed-percentage limitation of profits, in accord with the resolution adopted by the executive committee of the Institute. This does not imply that there may not be further improvements in the administration of the Act.
Renegotiation, the committee believes, has come to stay for the duration (or perhaps longer). Opposition to it as a whole seems to have reduced in scope and intensity. Businessmen still express dissatisfaction with a policy which precludes reliable forecasts of profits and which involves the uncertainties inherent in such a flexible device, but the committee believes that despite these uncertainties, the principle is preferable to any alternative method of fixed-percentage limitation of profit that has yet been proposed.

**Impending Amendments**

The committee foresees efforts in the near future to effect amendments of the Renegotiation Act, running the gamut from outright repeal to amendments which will further restrict the volume and character of business subject to renegotiation.

**The Johnson Bill**

Legislation has been introduced in the Senate (S-992) proposing to exclude from renegotiation war business of less than $500,000 in a fiscal year instead of the present limitation of $100,000. This bill has been sponsored by Senator Johnson of Colorado, and is to be known as the Renegotiation of War Contracts Act of 1942. Among other things it requires that every business with sales in excess of $500,000 shall file such statements of actual costs of production and such other financial statements for each expired fiscal year beginning after December 31, 1940, in such form and detail as the Secretaries shall prescribe by joint regulation. The bill also provides that within one year of such filing the Departments may give notice that profits are considered excessive and shall fix a day for initial conference within sixty days of such notice; if such notice of initial conference is not given within sixty days of notice that profits are considered excessive, the contractor shall not be required to renegotiate, and in the absence of notice that profits are deemed excessive, no renegotiation shall be started more than one year after the close of the fiscal year. The bill contains no amendment extending existing interpretations of non-renegotiable business.

**Postwar Reconversion**

The committee urges that allowance of provisions for postwar reconversion and similar reserves should be strongly advocated. The matter is one of sound accounting practice, affecting not only renegotiation but primarily taxation. The price adjustment boards disallow such charges on the plea that the necessity for reconversion may never occur; that the nature, extent, and cost is too conjectural to warrant present determination; and that the unknown duration of the war precludes accurate estimate. Also, they protest that in order to make such provisions really effective they would have to allow provisions four or five times as large as that actually required; because, if renegotiation don't get you, the tax man must. The first essential step to obtain this relief for business is to bring about a change in the Internal Revenue Code. If this were done, it seems probable that the price adjustment boards could be induced to grant related recognition without legislative mandate. Opinion in Washington gives some hope of change. The Truman committee has reported favorably, saying:

"Sound national policy requires the encouragement of manufacturers to set up such reserves, and that somewhat more liberal allowances of profit margins might properly be made to contractors who create reasonable reserves of this character than are allowed to contractors who spend or distribute all profits as they are earned."

The Senate Finance Committee has shown some interest; WPB, the Treasury, and the price adjustment boards have participated in studies.

The committee also suggests that the first $500,000 of sales under government contracts in any one fiscal year be excluded from renegotiation, regardless of how large the total amount of sales may be. The Johnson bill would exclude only sales of any company which aggregate less than $500,000. Our suggestion would extend the exemption to all contractors alike.

It is also suggested that renegotiation should allow special amortization covered by certificates of necessity, and should specifically require subsequent refund to contractors of sums reflecting revised special amortization if duration is less than 5 years as an adjustment of any excessive profits determined previously under renegotiation.
HEARINGS IN WASHINGTON

The committee stands ready to appear at hearings in Washington, to deal with matters involving accounting aspects of profit determination, implications of fixed-percentage limitation as opposed to renegotiation, or postwar reconversion costs, etc., and seeks authority from the council to do so.

The chairman of the committee participated in the recent Wartime Accounting Conferences sponsored by the Institute in cooperation with state societies, for the purpose of acquainting the profession with the activities of the Institute's wartime committees.

Respectfully submitted,

VICTOR H. STEMPF, Chairman
May 10, 1943

ANNUAL REPORT

TO THE COUNCIL OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The midyear report of the committee set forth the relations established with price adjustment boards in Washington, and described the documents and report forms reviewed by the committee at the request of such boards. The report stressed postwar reconversion reserves, urging allowances for such purposes on grounds of sound accounting practice affecting both renegotiation and taxes.

The committee has continued to advocate postwar-reserve allowances, in discussions and correspondence with representatives of price adjustment boards, Congressmen, Senators, and Treasury officials. Interest in the subject has also been aroused and maintained in appearances before meetings of state societies, trade association committees, and otherwise. The matter was also one of the several topics presented during the series of Wartime Accounting Conferences sponsored by the Institute in cooperation with state societies during the spring of the year.

At the midyear meeting, the council authorized the committee to appear at hearings in Washington, to deal with accounting aspects of profit determination, implications of fixed-percentage limitations as opposed to renegotiation, and postwar reconversion costs. No such formal appearance has been made; but in retrospect the committee regrets that it did not seek an opportunity at the hearings conducted by the House Naval Affairs Investigating Committee during June, 1943.

The published report of those hearings on renegotiation covers some thirteen hundred pages, from which one gleans a rather sorry picture of contradictory evidence of transparent self-interest, instead of a sound demand for the determination of genuine profits. The report reeks with pleas for subsidy or other handout in expectation of a calamitous postwar period; and it confuses funding and operating-reserve aspects of postwar reconversion problems. The report presents a series of pet theories regarding the funding of future costs, instead of sticking to sound accounting principles regarding present allowances for costs inherent in the war effort. Without such provisions the basis for taxation and renegotiation is seriously overstated; such profits are fictional instead of genuine.

In September, the General Counsel of the House Committee on Naval Affairs Investigating the progress of the War Effort, prepared a report, printed for the use of the committee; but that report was not adopted (with some revision) until October 7, 1943, and then committed to the Committee of the Whole House on the State of the Nation, and ordered to be printed. The report should be read by everyone interested in renegotiation. It summarizes the conclusion drawn by the Naval Affairs Committee from the evidence presented at the hearings. It deals with the background, accomplishment, organization, extension, administration, and principles of renegotiation. It discusses renegotiation versus taxes, and presents an involved dissertation on postwar reconversion costs. The conclusions are reflected in extensive recommendations.

In general, the recommendations affirm that the Act should not be repealed, and that there should be no blanket exemption
of "standard commercial articles." The report disapproves the creation of one overall price adjustment board, but favors coöperative policy-making between the departments; it retains the "before-tax" base and alleges that renegotiation is not the proper vehicle for postwar readjustment. It shifts that problem into other channels recommending prompt termination settlements, government payment of appropriate reversion costs when ultimately incurred, prompt payment of postwar excess-profits-tax refunds, and immediate publicized government studies of postwar economic prospects.

As to amendments of the Renegotiation Act, the report of the Naval Affairs Committee recommends: (1) accelerated statutory limitation of renegotiation, requiring closings within fourteen months after begun; (2) compulsory annual information; (3) the $500,000 limitation, with a reservation enabling renegotiation of profits on lesser government sales where unconscionable profits appear; (4) the addition of the War Shipping Administration and Agriculture Department to those authorized to renegotiate, and bringing presently exempt lend-lease contracts under control; (5) bringing all contracts of the Treasury Department under the Act; (6) clearer definition of general standards followed in renegotiation; (7) judicial review of unilateral determination; (8) disclosure of contingent-fee relationships in furthering renegotiation; (9) disclosure to contractors of reasons and bases of recoveries claimed, and publicity concerning such settlements within limits of war censorship and without imposing competitive hardship upon contractors.

Concerning postwar reserves, the chairman of your committee prepared a criticism of the Naval Affairs Report, a summary of which was published in the Journal of Commerce of September 22, 1943. Copies of the article were sent to selected Congressmen and Senators, the Treasury, and Bureau of Internal Revenue.

The original draft of the Naval Affairs Report ran afoot of the profession's public-relations interests by casting an implication of unreliability upon reports of independent auditors. The offending section read as follows:

"We were somewhat disturbed to find that the departments do not make more searching audits (review) of the records (expenditures of contractors. Title XIII of the Second War Powers Act, 1942, and Executive Orders issued by the President thereunder, give them full audit and inspection power over the books and records of government contractors. Yet the departments stated that, so long as the contractors' financial statements have been prepared by reputable auditors, no effort is made to verify them, and they are accepted at face value. A highly reputable accounting firm was employed by McKesson & Robbins, yet that employment merely served to sanctify a fraud. In view of the fact that one of the prime functions of renegotiation is the scaling down of prices by the disallowance as charges to the government of improper items of cost, we think that the large auditing and accounting staffs employed by the price adjustment boards should devote more of their time to making a careful inspection (examination) of the facts upon which the financial statements submitted by the contractors are based."

In the final report (identified as House Report No. 733) the italicized words in the foregoing quotation were deleted and the words in parentheses were added, as a result of prompt objection and personal conference with the general counsel of the Committee. It is deemed important to meet such aspersions promptly and squarely, lest they find their way casually into diverse records, only to rise and plague us subsequently.

The committee on limitation of war profits has before it, now, a proposal to seek an appearance before the Senate Finance Committee, where the amendments of the Renegotiation Act will ultimately be considered before enactment into law. The proposal contemplates particular emphasis upon the subject of postwar reserves. Other topics, if any, will await the conclusions of the House Ways and Means Committee, which has also held hearings. It is known that the recommendations of the Naval Affairs Committee are being considered, item by item, by a subcommittee which will submit a report to the House Ways and Means Committee as a whole, in due course.

On July 1, 1943, by rider on the Military Establishment Appropriation Bill, the Renegotiation Act was amended to include
the Defense Plant Corporation, Metals Reserve Company, Defense Supplies Corporation, and Rubber Reserve Company among the departments authorized to renegotiate war contracts. Also, on July 14, 1943, Public Law 149 was enacted, subjecting commission brokers and agents to the provisions of the Renegotiation Act.

Respectfully submitted,

VICTOR H. STEMPF, Chairman
GEORGE D. BAILEY
PRIOR SINCLAIR

October 15, 1943

Report of the Committee on Priorities and Allocations

MIDYEAR REPORT

To the Council of the
American Institute of Accountants:

Gentlemen: The committee on priorities and allocations was appointed by the president in November, 1942. Its functions, as set forth in the December, 1942, issue of The Journal of Accountancy, are as follows:

“This committee shall offer to work with the War Production Board in improving the forms and the system utilized for control and allocation of critical materials, and shall formulate recommendations regarding record-keeping by industrial companies which will facilitate the operation of the system.”

Since the committee’s appointment two major developments have taken place in the priorities and allocations system. These developments are the Controlled Materials Plan and the Consumers’ Goods Inventory Limitation Order L-219. While these two control devices have been under consideration for some time, they will both be put into actual operation during the second quarter of 1943.

The Controlled Materials Plan is an elaborate system designed to control the flow of scarce materials into production and to control the amount of inventories of such materials. The chief feature of this plan is the allotment of basic materials (copper, steel, and aluminum at the outset) to manufacturers on the basis of approved production schedules, in the light of the available supply of these materials. Allotments are issued by thirteen claimant agencies to so-called prime consumers who pass on such allotments to secondary consumers and suppliers of raw materials. It is hoped that this plan will remedy the basic defect of the Production Requirement Plan which permitted the fabrication of parts of essential end-use war products out of proportion to the production of other parts needed for the same end-use products.

Limitation Order L-219 is designed primarily to limit inventories of so-called consumers’ goods by placing restrictions upon the receipt of such goods during a given quarter whenever a merchant’s actual inventory exceeds a determined inventory limit. Where this latter situation exists merchants are required to file reports with the War Production Board. This Order was deemed necessary by reason of an inequitable distribution of available consumers’ goods among various merchants throughout the country.

While the basic framework of the aforementioned two control devices was already well established at the time this committee was appointed, the committee has conferred with representatives of the War Production Board on one aspect of the Controlled Materials Plan. On this occasion the members of the committee reviewed a proposed Consumer Allotment Accounting Manual which was prepared by the Controller Division of War Production Board’s Distribution Bureau. The purpose of this manual is to suggest to industry the manner in which each individual business may keep records of allotments received, passed on, and utilized. At the meeting the details of the plan and the manual were discussed, some suggestions for improvements were made, and the committee was requested to make a further study and submit its recommendations in writing.

Under date of January 30, 1943, your committee submitted a report to Leonard O. Zick, Assistant Deputy Director Gen-
eral, War Production Board, which reviewed the draft of the Consumer Allowment Accounting Manual dated January 9, 1943.

The committee met with representatives of the War Production Board, considered the record-keeping necessary under the Controlled Materials Plan, and, following this meeting, reviewed the draft of the manual and prepared and submitted the report above noted. This report was cordially acknowledged by Mr. Zick who stated that many of the suggestions of the committee were being incorporated in the revised manual.

Since that time, with the internal reorganization in WPB and the resignation of Mr. Eberstadt, Mr. Zick also has resigned and we have had no further requests for assistance on the handling of priorities and allocations.

The members of this committee hope to cooperate with representatives of the War Production Board concerned with priorities, in the future, on such problems of an accounting nature as may from time to time develop.

Respectfully submitted,

C. Oliver Wellington, Chairman
Frederick H. Hurdman
Albin D. Strandberg

April 26, 1943

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

Report of the Board of Trustees

To the American Institute of Accountants Foundation:

Gentlemen: Your board of trustees has held two meetings since the annual meeting in October, 1942.

Income from the Foundation, amounting to $2,979, derived from interest on the capital fund, has been contributed toward the support of the Institute's library as in the past, with the exception of $189, which has been paid in fees to a securities custodian.

Following are the changes in the securities of the Foundation during the past fiscal year:

Sold
$5,000 Baltimore and Ohio Railroad Company, 5-year secured notes 5%, 1944, at 84 ............................................. $4,185.00

Purchased
$5,000 United States War Bonds, Series "G" ............................................. $5,000.00

Respectfully submitted for the board of trustees,

George S. Olive, Chairman

October 18, 1943

AMERICAN INSTITUTE BENEVOLENT FUND, INC.

Report of the Board of Trustees

To the American Institute Benevolent Fund, Inc.:

Gentlemen: During the fiscal year ended August 31, 1943, the American Institute Benevolent Fund, Inc., received in the form of contributions, income from investments, and interest on savings bank deposits, $6,144, During the year the Fund extended assistance to members of the Institute in the amount of $2,400, and expended $75 for stationery, printing, postage, and general expenses.

Contributions to the Fund were $5,986, an increase of $1,700 over the previous year. The principal fund August 31, 1943, was $12,089.
The statement of assets of the Fund as of August 31, 1943, and August 31, 1942, and an analysis of the increases and decreases of the principal fund during the two fiscal years is submitted as a supplement to this report.

As in recent years, a special letter was sent to all members of the Institute with the bills for membership dues September 1, 1943. Up to October 15, 1943, 758 members and associates had responded, with contributions totaling $6,454.50, in comparison with 605 members and associates who contributed $4,627.50 in the same period last year. Last year your board of trustees was able to report that an increasing number of members had participated in this work of the Institute, and it is our earnest hope that this year will find an even larger number of members taking an interest in the Fund, so that in the future, when demands are expected to increase, there will be a sufficiently large principal in the Fund to meet the needs of those members who may require assistance from the Fund.

Respectfully submitted,

John B. Niven, President
Samuel J. Broad, Treasurer
Charles B. Couchman
John F. Forbes
Frederick H. Hurdman
Robert H. Montgomery
C. Oliver Wellington

October 15, 1943

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**Balance-sheet**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Year ended August 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1943</td>
</tr>
<tr>
<td>Cash:</td>
<td></td>
</tr>
<tr>
<td>Bankers Trust Company</td>
<td>$1,312</td>
</tr>
<tr>
<td>Savings banks</td>
<td>2,807</td>
</tr>
<tr>
<td>Investment (market value August 31, 1943 — $8,157 — August 31, 1942 — $3,048)</td>
<td>7,970</td>
</tr>
<tr>
<td>Total assets</td>
<td>$12,089</td>
</tr>
</tbody>
</table>

**Statement of Principal**

Receipts during the year:
- Contributions: $5,255  $4,186
- Contributions special purpose: $731  100
- Income from investments: 108  90
- Interest on savings bank accounts: 50  49
- Repayment of loan: 100

Total receipts: $6,144  $4,525

Payments:
- To members for assistance: $2,400  $2,500
- Stationery and printing: 50  55
- Postage: 17  —
- Fees to securities custodian: 5  4
- Miscellaneous: 3  —

Total payments: $2,475  $2,559

Net income for the year: $3,669  $1,966

Add balance at beginning of the year: 8,420  6,454

Total principal fund, per statement of assets, above: $12,089  $8,420
Report of the Advisory Council of State Society Presidents

To the Council of the
American Institute of Accountants:

Gentlemen: In accordance with the recommendations made to the council of the American Institute, Frank A. Gale was appointed in 1943 assistant secretary to assist the chairman and secretary of the Advisory Council. The aid given by Mr. Gale during the past year has been very effective and has relieved the chairman and secretary of the Advisory Council of much detail.

Each state society president, when elected, received a digest of the activities of the Advisory Council throughout its existence. At the same time, request was made of the newly elected state society presidents for suggestion as to how the Advisory Council could improve its activities and its service to the Institute.

At the 1943 session, thirty-seven states were represented either by state society presidents or representatives. In addition, a number of past presidents of state societies and other members of the Institute interested in the subjects to be discussed were present.

Due to illness in his family, the secretary, Eric P. Van, was unable to attend the meeting; thereupon, the Advisory Council unanimously elected John Wiseman of West Virginia acting secretary for the meeting.

The desirability of coordinated CPA legislation was discussed. T. Dwight Williams, chairman of the committee on state legislation of the Institute, reviewed the problems encountered by that committee in its efforts to obtain coordinated CPA laws throughout the country.

Roy Andreae, president of the Illinois Society, discussed the provisions of the recently enacted Illinois laws, and Robert S. Warner, past president of the Missouri Society, discussed various features of the Missouri law recently enacted in that state.

The general discussion which followed developed the fact that there is a decided difference of opinion with respect to the advisability of recommending regulatory legislation in many of the states. It would appear that until this thought is crystalized, so that the Institute may take a definite position on the best type of regulatory legislation to be recommended, the Institute should continue its present policy of close cooperation with those states where new CPA laws are being introduced in state legislatures.

It was the consensus of those present at the meeting that the Institute should continue its efforts to secure coordination of CPA laws, and that it was desirable that the Institute prepare model laws both for non-regulatory and regulatory legislation. These could be submitted to state societies as a guide when new legislation is being considered.

George D. Bailey, chairman of the committee on government audit of contractors' costs of the American Institute, discussed briefly the subject of war contract termination and urged the state society presidents to do everything in their power to hold meetings throughout the year on this subject. He pointed out the added responsibilities placed upon accountants and that much would depend upon their ability to maintain their independent position with regard to the compilation of data in connection with contract termination. It was the consensus of the meeting that Mr. Bailey's suggestion should be followed, and, whenever possible, the Institute endeavor to provide speakers on this subject when requested.

Victor H. Stempf, chairman of the committee on public information of the Institute, discussed the subject of coordinated public relations and urged all state societies to develop public relations committees to coordinate the public relations activities of the Institute with those of the state societies. It was the consensus of those present at the meeting that this cooperation was very desirable both for the present and future progress of the profession, and it was urged that all state society presidents endeavor to establish in their state societies such committees; also, that the assistant secretary of the Advisory Council communicate with those state society presidents who were not able to attend or were not represented at the meeting and urge them to further this activity in their societies.

Clifton H. Morris, chairman of the
nominating committee of the American Institute for its 1943 meeting, appeared before the Advisory Council to discuss the importance of the members of the Institute in the various states replying to the request of the nominating committee for the names of members in their states whom they believe are well qualified. Mr. Morris reported that the response to these requests represented only 17 per cent of the membership of the Institute, and that in one state only 5 per cent of the members responded to the request of the committee. It is evident that this does not give the nominating committee the information it requires to enable it fully to discharge its duties in a satisfactory manner. It was the consensus of those present that the request of the nominating committee should be brought to the personal attention of every state society president when these requests are forwarded to members by the nominating committee. It was considered desirable that the state society presidents contact the Institute members in their states and urge them to respond to the request of the nominating committee, the procedure to be followed in accomplishing this objective to be left to the judgment of the state society president.

Papers were submitted by Thornton G. Douglas, president of the California Society, and Donald M. Russell, president of the Michigan Association, on the subject of experiences with wage and job stabilization. It was suggested that these papers might be of general interest to all of the members of the Institute and that, if space permitted, they be published in The Journal of Accountancy.

The nominating committee of the Advisory Council presented the following candidates, who were elected by unanimous vote.

Chairman—Donald M. Russell, Michigan
Secretary—James Archibald Leach, Jr., Virginia

George S. Olive, president of the Institute and chairman of the Institute's committee to study the question of coordination of the state and national organizations, submitted a report to the Advisory Council setting forth the results of a meeting of that committee held October 17, 1943. He reported that it appeared obvious that this committee could not expect to develop a definite program in a short period of time. One of the subjects discussed by this committee, which was brought to the attention of the Advisory Council, was the desirability of establishing a bureau within the Institute, the primary duty of which would be a special staff, which would keep in close contact not only with the state society officers but with all the committee chairmen of state societies. Mr. Olive estimated that such a service to the state societies would cost approximately $15,000 per year, and stated the Institute is not presently able to meet such an expenditure if the establishment of this bureau is considered desirable. He also advised that this was in a formative stage and would be given further consideration by the committee when developing its more definite program on this subject, and that such a bureau might be established by the Institute financing part of the costs and the state societies contributing to its support. The matter was discussed at some length by the Advisory Council and a request was made for a showing of hands of those present who would be willing to present to their state societies the possibility of supporting this bureau by contributing an amount of $1.00 per member. It appeared to be the unanimous opinion of those present that they would be willing to present this matter to their state societies and recommend that they support this project when developed. It was pointed out in the discussion, however, that it might not be necessary to call for an amount as high as $1.00 per member, and that the amount would be studied further by the committee and a lower amount fixed if possible.

A report was received from Eric P. Van, secretary of the Advisory Council, on the subject of competitive bidding. The report indicated that there was a very wide divergence of opinion on this subject among the officers of the various state societies, and that at this time it was not appropriate for the Institute to press for a more stringent rule on this subject. Upon motion duly made, seconded, and unanimously carried, the following recommendations contained in Mr. Van's report were adopted by the Advisory Council:
1. That this body go on record as being opposed to the practice of competitive bidding for accounting engagements.

2. That the present secretary (and this is one job which he has agreed to do) communicate with state society presidents, and urge them, where a specific rule against competitive bidding is not now in effect, to have placed on the program of the year's activities for adoption by their respective societies a rule corresponding to the present Institute rule No. 14 to the end that those societies which have adopted specific rules will receive the courtesy of support in their efforts, to which they are entitled from brother CPA's, and to encourage other societies, which may have held back, to adopt firm rules on the matter.

3. That each state society be asked to formulate a program looking towards the solution of its particular problem.

4. That a progress report be made a matter of business at each meeting of the Advisory Council.

It will be noted from the above that Mr. Van, even though not continuing in office as secretary of the Advisory Council, has offered, because of the experience obtained in making this study to follow up this work for the Advisory Council.

Attention should be directed to the complete stenotypist's report covering the discussion of this subject, as some very important points were brought out. One important point discussed, which should receive major consideration, was that certain types of rules on competitive bidding might be in conflict with certain federal or state statutes and the state societies should have advice of counsel before adopting a rule on competitive bidding. There is considerable doubt in the minds of some as to whether a stringent competitive bidding rule would be to the best interests of the profession.

Frank A. Gale, the assistant secretary of the Advisory Council and assistant secretary of the American Institute, made a report with regard to regional conferences. Mr. Gale advised that several of these regional meetings had been canceled during the past year and that the only substitute therefor had been in the nature of a series of wartime problem meetings. These latter meetings were held by a small number of the state societies at which addresses were made on current wartime subjects by officers and other representatives of the Institute. These meetings could not be held by all state societies, owing to the limited time at the disposal of these speakers. Mr. Gale asked for an expression of opinion of the Advisory Council with respect to the advisability of continuing the regional meetings, or, if it was preferable, for individual state societies to hold these special meetings on wartime subjects, which would be addressed by Institute members. Upon motion duly made, seconded, and unanimously adopted, the Advisory Council urged that whenever possible regional conferences be continued during this wartime period and be confined to the discussion of wartime problems and subjects, and that every state society president be advised of this action and urged to cooperate with the Institute in this regard.

Because of the interest shown by various state societies in the problem now faced by the Massachusetts Society with respect to the preparation of income-tax returns being considered the practice of law, E. Ober Pride, president of the Massachusetts Society, discussed the problem briefly and assured those present that counsel in this matter for the Massachusetts Society and counsel for the Institute were working together on this problem.

Attention is directed to the stenotypist's report of this meeting which contains the full discussions and many other suggestions which should be given consideration.

Respectfully submitted,

Committee to report to the council of the American Institute of Accountants

J. Arthur Marvin, Chairman

John Wiseman, Acting Secretary

J. A. Leach, Jr.,

Donald M. Russell