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Editorial

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A. P. RICHARDSON, *Editor*

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EDITORIAL

Federal Investigation of Bankruptcy Practice It was announced recently in the daily press that upon request of President Hoover the department of justice, through the solicitor-general's office, is about to make an investigation of bankruptcy law and practice to assist the administration in making recommendations to congress for amendment of the bankruptcy laws. It is stated that the investigation is the result of a report on conditions in the city of New York and is intended to ascertain whether such conditions are peculiar to New York or not. Investigation will be conducted in ten or more cities and the department of commerce will coöperate. In announcing this investigation, the president said that during the past five years losses through bankruptcy have exceeded three billion dollars and are now amounting to an average of seven hundred and fifty million dollars a year. When this proposal was announced, the president of the American Institute of Accountants addressed a letter to Mr. Hoover and received a reply. We reproduce these letters herewith for the information of our readers:

July 30, 1930.

HON. HERBERT HOOVER,
White House, Washington, D. C.

Dear Mr. President:

The accountants of this country are much interested in your proposed inquiry into the question of bankruptcy practice, as we believe many bankruptcies could be avoided if proper accounting methods were employed and that the evils growing out of bankruptcies could be mitigated by these same methods.

Believing that the American Institute of Accountants could assist in working out a solution for some of these problems, it has for some time had a committee on bankruptcy procedure, with Colonel Arthur H. Carter of Haskins & Sells as chairman, following developments in this matter very carefully. I am glad to offer the services of the Institute to the attorney general in any way that it can be helpful. We shall hold ourselves in readiness to serve you.

Respectfully submitted,

F. H. HURDMAN,
President.

THE WHITE HOUSE
WASHINGTON

August 4, 1930.

My dear Mr. Hurdman:

Your letter of July 30th is very encouraging. I do appreciate your generous offer of service and shall be glad to send it to the attorney general, who is to undertake the investigation.

Yours faithfully,

HERBERT HOOVER.

**Need of Reform
Recognized**

Prior to this correspondence a committee representing the bar associations and credit men in New York published a report on bankruptcies which was the subject of much popular discussion, and the American Institute of Accountants appointed a special committee which has been invited to coöperate in the consideration of conditions and the proposal of plans for reform. Everybody knows that the conditions which have existed in administration of many bankrupt estates in the neighborhood of New York have been simply atrocious and the loss which is entailed in fraudulent or incompetent administration of bankruptcies is not only appalling but largely preventable. So long as the administration of bankrupt estates is regarded as the peculiar perquisite of political favorites, it is idle to hope for reform, and it might be permissible to go further and say that so long as receivers, trustees and the like are not selected solely for their capability and honesty, there will be no reform worthy the name. An advance toward the ideal state of affairs was made when it was arranged that one of the New York banks should be appointed as administrator of bankrupt concerns, but, as we have previously pointed out, while this change makes for honesty, it does not necessarily make for efficiency. Absolute integrity is, of course, a prime necessity in such cases but it is also requisite that there be

knowledge of accounts and the application of business methods, if the utmost is to be saved out of the wreckage.

**Accountants are Best
Fitted to Administer
Bankrupt Estates**

There seems to be an incomprehensible objection to employing as receivers and trustees the one class which in the whole community is by training, knowledge and ability best qualified. This assertion is not pure theory. The experience which has attended the administration of bankruptcy in Great Britain demonstrates quite conclusively that the accountant is in most cases the one man who can effect saving and bring order out of chaos. Some years ago an investigation of the administration of bankruptcies was conducted and at that time this magazine published comments upon the conditions in the two countries. Since then there has not been any substantial change, we are informed, in the practice and results in Great Britain and, consequently, the figures which were significant are equally significant now. It is still the prevailing practice in Great Britain to place bankrupt concerns in the hands of accountants for administration, and out of the wreckage these men save a substantial percentage of the amounts involved. Many firms and other bankrupt concerns are so ably administered by their accountant trustees that they are enabled to carry on, to come out of bankruptcy into solvency and then to survive as going concerns. In other cases, assets which might easily be squandered, through inefficiency or worse, are realized at something approaching their true value and creditors suffer only a small percentage of the loss which threatens. In all cases the cost of administration is comparatively low. In this country it has been the practice, not only in New York, but in many other places, and perhaps one might say generally throughout the country, to appoint lawyers and others whose suitability for appointment seemed to depend largely upon their need for lucrative occupation. The result has been appalling. The figures which the president of the United States announces are eloquent. The national debt of the United States of America is at present approximately sixteen billion dollars. Our losses in a period of five years exceed three billion. In other words, we lose the extent of our enormous national debt every twenty-five years or so. And the greater part of that loss, if we may take the British experience for precedent, is avoidable. The answer is obvious.

**An Unfortunate
Error**

It has been brought to our attention that *The Financial News*, London, in its issue of May 14, 1930, contains an article entitled "Fifty years of chartered accountancy," written by Lawrence R. Dicksee, emeritus professor of accountancy and business methods in the university of London, but perhaps better known in this country as the author of a standard text on auditing. In the course of that article, the following paragraph appears:

"Fifty years ago the terms 'efficiency,' 'scientific management,' and 'rationalisation' were quite unknown. Now they are being, perhaps, almost too much talked about. Solid progress has been made towards the better administration of business, and probably no profession has contributed more towards this progress than accountants. The indiscriminating reader may perhaps be inclined to think that in this respect American accountants have forged far ahead of British practitioners, but in forming this opinion he does not allow for the fact that British chartered accountants are not allowed to advertise, whereas in the states nothing is done without advertisement."

**An Explanation Which
Does Not Explain**

It is somewhat distressing to find a statement of this sort appearing under the authorship of one who should be familiar with practice in this country; and at first it seemed quite clear that one of two things must have happened: either Mr. Dicksee's language had been distorted by the printer or he himself was ignorant of the facts. The secretary of the American Institute of Accountants wrote to Mr. Dicksee explaining the rule of the Institute with reference to advertising and Mr. Dicksee replied to the following effect:

"I was not unfamiliar with the provisions of your rule No. 11, and nothing was further from my thoughts than to make invidious comparisons. I think, however, that the fact remains that accountancy in one way and another receives a good deal more publicity in the states than it does in this country, with the result that the advantages of good accountancy are more widely known and better appreciated there than here. A good many practitioners over here think that our institute adopts an altogether too conservative line with regard to propaganda, and the main object of my article was, of course, to take advantage of the jubilee to do a little advertising for the profession as a whole."

It will be noted that there is no imputation of error to the printer and, therefore, it must be assumed that the author of the

article in question admits its accurate production. The alternative explanation—namely, that Mr. Dicksee was ignorant of the facts—is thrown out of court by his own letter in which he admits that he was not unfamiliar with the provisions of rule 11. The whole thing is rather confusing. If we turn back to what this eminent author says in his article in *The Financial News*, we find that “in the states nothing is done without advertisement.” If we turn to the letter we find that ignorance of the real conditions is disclaimed. There must be some way of reconciling these two apparently contradictory statements, but we have not discovered it. And, really, it is lamentable that the incident should have occurred—at least it seems so to American eyes.

**Out of Tune With
the Harmony**

To go back to the facts, there is, it appears, a complete misapprehension. The accounting profession in this country does not receive one-half the publicity which it receives, and deserves to receive, in Great Britain. There the profession is older, its position is more assured, and it is not necessary to inform the public what an accountant is and does. Every business man, every banker, every judge upon the bench knows of what stuff accountancy is made. We wish that the status of the profession in America were as well established as it is in Great Britain. Here there is a considerable improvement over the conditions of past years and the profession is coming into its own, but it has not achieved a position commensurate with its position abroad. There are in this country a few advertising accountants, some of whom employ press agents to sound their praises and to see that every spoken and written word is given the widest possible publicity, but they are the exceptions. Most of the work of the accounting profession is done behind the screen of a traditional silence. The American Institute of Accountants, in its code of ethics, prohibits advertisement except of certain unimportant matters, such as changes of personnel in firms, etc. Mr. Dicksee's work on auditing was one of the early texts used in the education of accountants in this country, and we trust sincerely that its American circulation was not entirely devoid of compensatory benefit. It is then all the more regrettable that one whose contact with American accountancy, although somewhat indirect, has been continuous should have so failed to grasp the principles and sentiments of the profession here. Everyone knows there is need

of international comity in all departments of life and activity. There are many differences in methods of professional practice and probably each country thinks its own way the best, but Mr. Dicksee is not aiding the cause of friendliness by invidious comparisons, whether founded on fact or fancy only—and we shall not aid the cause if we pursue the subject further.

Jobs A correspondent sends a clipping from a western paper which reads as follows:

“A C. P. A. firm seeks experienced accountant to solicit jobs; excellent opportunity for progressive man.”

It seems to our correspondent that something should be done to prevent “this sort of thing,” but it is somewhat difficult to know what can be done. Everybody knows that there are lawyers, so called, whose sole value to the law firms which employ them is the amount of “business” which they bring into the firm. Ambulance-chasing is frowned upon by the bar and now and then someone is disbarred for practices which are contrary to the ethics of the bar, but so long as there are ambulances they will be chased by that sort of person to whom chasing seems lucrative. Everybody knows that there are physicians who pay commissions. A good many people know that there are architects who are not altogether innocent of receiving commissions from contractors. These things are very much like the solicitation of accounting work by so-called accountants. They are utterly damnable, but persist. The deuce of it is that there are a good many business men who have not yet learned that the accounting firm which goes hat in hand asking for employment is doing something which is contrary to the principles upon which the accounting profession is founded. The extent to which solicitation is productive in these days is far less than it was, say, fifteen years ago. More and more men in business are learning to select their accountants for excellence rather than for their much speaking. But there are still enough of the old kind left to make it seem desirable to unscrupulous firms to employ solicitors—men who go up and down the street ringing doorbells and publishing to all who will listen the peculiar merits of those whom they represent—men who will do anything to obtain an engagement, honestly if possible, but to obtain it.

**All Will Be
Well**

What the advertiser in the western paper had to say was merely a frank expression of what he probably would call business sense. One can not sell merchandise without salesmen, and the argument is that one can not sell professional service without salesmen. Of course, this plea is pure folly. The experience of all professions is much the same. It does not pay to advertise if one advertises himself, and that is all that a professional man has to sell. It does pay, and pays well, discriminately to advertise inanimate things. Probably the "C. P. A. firm" which was seeking an experienced accountant to solicit business was seeking an experienced solicitor who could talk plausibly enough about accounting. Our correspondent is needlessly worried. The "C. P. A. firm" no doubt found a man after its own heart and sent him out to sound the trumpet. Perhaps some innocent soul was deceived, but one can not have very much sympathy for men of business in these days who are led astray by the specious arguments of high-pressure salesmen. One of the most remarkable persons of the latter half of the nineteenth century was Silvanus Johannes Paulus Kruger, to the wary better known for sake of brevity and facility of appellation as "Oom Paul," president of the Transvaal republic. When people were distressed by this or that, as our correspondent is distressed, it was the custom of Oom Paul to fold his hands and say, in that wonderful, deep voice of his, "Alles sal regkom" (Alles zal recht komen)—and that was pretty good philosophy.

**Savings Banks
and Publicity**

An accountant with a bent for economics asks whether the competitive advertising campaigns conducted by savings banks, especially in the great cities, is compatible with the coöperative principles upon which such institutions are founded or is merely an undesirable development of the natural inclination of most of us to exalt and magnify any undertaking with which we are associated. It is quite true that of late years there has been evidence of rivalry between savings banks, and the rates of interest have seemed at times to be a little higher than conservative management might be expected to approve. Methods of computing interest have changed from the old quarterly plan to a monthly and finally to a daily basis. Today one may deposit money in many of the leading savings banks in New York,

withdraw it a few days later and receive the interest accrued during the whole period of deposit. Where in the olden times the rates were three or three and a half per centum, now four and even four and a half prevail, apparently without any indication that a return to the lower rates will be necessary. The advertising conducted by many of the largest and strongest institutions is costly. Beautiful buildings now take the place of the musty old rookeries in which the earlier banks were housed. In a word, the savings-bank industry shows all the marks of prosperity, and that is not astonishing in view of the fact that one person in every four of the entire population of some states has a "savings" account and that the average amount to the credit of depositors in some states is as high as eight hundred dollars. The altogether beneficent influence of the savings bank has done a tremendous service to the public in encouraging thrift and in making this country one of the richest in the world. To question the wisdom or propriety of heavy expenditures for publicity seems a little ungracious and possibly narrow-minded. No one can tell to what extent the enormous growth of the nation's thrift has been aided by the alluring inducements to save which have appeared in the daily press and magazines and have adorned, if so hideous an excrescence can be adorned, the ubiquitous billboard. It is doubtful whether all the people who have adopted the policy of saving would have done so without the adventitious instigation of advertisement. Perhaps it may not be going too far to believe that half the savings accounts on the books today would not be there if nothing more compelling than individual initiative had been. The appeal of future absence from financial cares, the urge to provide for the needs of one's family, the comfortable assurance that there is something put away against the coming of a rainy day—these and other valid reasons for saving have been stressed so much and so cleverly that we have become a saving people while we are at the same time the most wasteful in all the world. That paradox is due in great degree to the wholesome activities of the American savings bank. The men who have directed the policies and operations of these banks have been devoted to a noble cause and, almost without exception, they have looked more to the welfare of the people than to their own personal recompense of a monetary kind. They have known the satisfying reward of achievement. The advertising which is occasionally the subject of critical comment is a part of the general plan of a campaign

whose purpose is to bring thrift into the hearts and the homes of the nation. If it be at times competitive and therefore not absolutely altruistic, it does not defeat its main purpose. It is an expression of zeal for a good cause.

**Efficiency in
High Places**

From time to time it is necessary to differ with the United States post-office department on the question of the handling of mail, and it must be admitted that most of the causes of discussion involve apparently inexplicable delays. It is a peculiar pleasure, therefore, to be able to speak well of this much-discussed branch of national activity. We have received a letter from the first assistant postmaster general returning to us a letter addressed to a man in Dawson, New Mexico, with the notation that it was undeliverable. The original letter bears the return address, "The Journal of Accountancy, 198 Broadway, New York City" and the postmark is November 25, 1911. This letter, after wandering nineteen years, has finally come home. After this no one can say that the post office is not, occasionally at any rate, efficient, even if slightly dilatory withal.