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Editorial

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The JOURNAL of ACCOUNTANCY

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A. P. RICHARDSON, *Editor*

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EDITORIAL

The Antithesis of Goodwill

It is probably not an exaggeration to say that the chief purpose of practically every commercial, industrial or financial enterprise is to create goodwill, so that out of it may come the profits of operation. But comparatively little attention seems to be paid to the converse of the proposition, namely the prevention of bad will. It is far easier to establish bad will than good, and perhaps it is the very easiness of it which leads to its disregard. For example, in a time like the present when it seems to be necessary to make readjustments in almost every enterprise there is a most imminent peril of building up a bad will which will last for many years to come. We all talk about tightening up the belt, reducing expenses, preventing waste, effecting what are called economies in all directions; but while we are doing these apparently necessary things a good many people are going beyond the realm of necessity. They seem to have become terrified, and they rush from one extreme to the other. A few years ago it was the custom to expand, to increase expenses, to embark upon all sorts of wild adventures; and the man who did not do these things was called a fool. Now the very same people who were errant on the extravagant side of the road have gone astray on the other side and are afraid to spend a cent. That is one of the great causes of the continuance of the depression. It is an expression of the spirit of uncertainty accompanied by dread. So few of us are able to walk in the middle of the road. It is probably human to go to extremes. Certainly it is characteristic of several of the principal peoples of the world, notably those of

America and France, the two countries which at present chiefly control the destiny of the world. Today France is confident, America despondent. Tomorrow the positions may be reversed, but let us hope that both will be confident and all the other nations as well. Surely what has happened in the elections of Great Britain shows a stability and good sense which some people have not given credit to Great Britain for possessing.

**We May Still
Be Human**

Now in America we are doing many strange things in our efforts to wander out of the morass into which we have gone. Great committees and commissions are busy making plans for the relief of the unemployed during this winter. Millions of dollars will be raised, and much of it will be fairly distributed to those who will indicate their need; but some of the companies whose heads are making the most frantic efforts to encourage assistance of the needy are themselves creating a great deal of supererogatory need. It is not obligatory upon a corporation to conserve all its assets. In a time like the present there should be a humanity as well as a spirit of economy. The absence of the humanities leaves a vacancy which will be filled by undesirable forms of socialism, by communism and general discontent. We think it would be well if all the corporations which find it necessary to effect economies, as they are called, would stop to consider for a while whether or not it would not pay in the long run—and this puts the matter on its lowest plane—to sacrifice all thought of profit or even to some extent the avoidance of loss, and instead to help the world, or rather the people of the world.

Base Ingratitude

Let us take a concrete case. A railroad company which has been operating for many years at substantial profit suddenly finds itself adversely affected by decline in freight and passenger traffic. Those who direct its affairs have only one thought, namely to reduce expenses so as to increase the margin of profit. Accordingly, wholesale reductions of staff are made, wages are reduced and the whole machinery is slowed down almost to a standstill. Now the reduction of wages is almost inevitable when the purchasing value of the dollar increases as it is increasing, but that does not mean that a general reduction of staff is altogether wise or even justifiable. This railroad which we have in mind discharged

the other day a group of office employees of the higher ranks, some of whom had been in the employ of the company forty years or more. Their efficiency had not been reduced by age, but their fault was that they were receiving higher wages than would have to be paid to new men. Instead of giving them a chance of accepting a lower wage they were immediately discharged without notice. It is common knowledge that employees of railroads are not as a rule overpaid and few of them are able to lay aside very much against a rainy day. In the case before us we have men, who had spent all the fruitful years of their life in the service of the corporation, thrown out of work and left without pension or resources of any kind. Now let us see what will be the result. All these men have friends, some of them many friends. Probably the whole group of discharged men will have an influence upon hundreds of other men and women, and there will be spread abroad a sentiment of contempt for a corporation which when not actually in difficulties saw fit to sacrifice its faithful employees at such a time as this. The railroads of the country are particularly vulnerable. They are facing problems which are real and they can not afford to build up any more bad will than they have at present, yet here is an authentic instance of that suicidal policy which has always appeared from time to time in the history of American railroads. Apparently the public may still be damned.

**There Is No Sound
Justification**

Of course the reply will be that railroads are not charitable organizations and they can not be expected to take care of all their employees. Of course they can not. When men have been employed only a little while and have not demonstrated any particular faithfulness, there can not be any sympathy with them if they are discharged. But surely when a man has given his life to a corporation and then is heartlessly discharged without cause it is absolutely unpardonable. In the present case it is quite easy to believe that many hundreds of tons of freight and many thousands of passengers will be diverted to competing railroads because of the disgust with which the public will regard the action which has been taken. The same story might be told of many industries. It is the total selfishness of many corporate organizations which is bringing about a dangerous tendency toward some sort of paternalistic protection. We may never sink

so low as to resort to the dole, but we may come perilously near it. It has been said that corporations have no soul—and that is readily believed—but on the other hand there are corporations which display something very much like a soul. There are companies today which are “carrying” men for whom there is no absolute necessity, and they are doing this partly out of a sense of duty and partly also because they desire to stand well in the eyes of the public. To put the matter in another way, the avoidance of cutting down personnel is a form of advertising, and the profits of it will accrue in the future. Every one of us who has the slightest capacity for sympathy feels in him a spirit of friendliness toward a company which is doing its best to help in a time of crisis, and every one of us is alienated from every corporation which is pursuing an entirely selfish and heartless course. In the coming years the good will and the bad will now in the making will affect directly the success or failure of the companies of today. And there is another tremendously important effect of bad will that will be felt when prosperity shall have returned. In the case which we are considering, the result will be that when the potential employee can exercise selection, in other words, when there shall be more jobs than men to fill them, it is quite certain that there will be no applications from desirable men to those corporations which have been guilty of gross disregard of the elements of decent humanity. They will be compelled to fall back upon the men whom no one else will have.

**Altruism Is Good
Business**

Anyone who reads these comments may say: “All this is pure altruistic theory.

You can't expect a company to carry on at a loss when by reducing its number of employees it may operate at a profit.” To this the reply is: “Oh, yes, we can expect just that. When the whole world is confronted by a grave problem, everyone, even a corporation, must assist in its solution.” As we have said, there will be and should be reductions in the rates of wage when the value of the dollar is going up. We are not attempting to argue against that logical outcome of the present condition, but the point which distresses many people today, people who regard the matter purely in an academic way and are not personally affected, is that it is unforgivable to “lay off” a single man or woman who can be retained in employment. Corporations, partnerships and the individual men of business will

live to regret any act which they may perpetrate today against the welfare of the rest of us.

Goaded By Spurs An accountant, who frankly admits that he abhors law and regulation so far as they apply to the practice of a profession, has written suggesting that THE JOURNAL OF ACCOUNTANCY should publish editorial comment upon the fallacy of forbidding and the futility of all inhibition. His thesis apparently is founded upon a fear that the council of the American Institute of Accountants is about to enact an additional rule of conduct which will forbid any member of the organization to give a certificate of the future earnings or income of any business enterprise. He points out that in his belief there is no inherent harm in prediction. He contends that the only danger lies in the misuse of an accountant's prophecy. He then goes on to argue that nothing is ever accomplished by the law of *Do not*. It is difficult to have complete confidence in our correspondent's profession of faith, but he stoutly affirms his adherence to the doctrine of professional anarchy. Anarchy, as we all know, is a beautiful theory which postulates the universal righteousness of mankind. It is based upon the principle that if a man is placed upon his honor he will never do anything dishonorable. Philosophers from Socrates to our correspondent have been thinking about the perfect state, the ideal commonwealth, the model republic in which all men will be equal and all men will be good and no one will defraud. It is an entrancing image, but the hard cruel fact is that mankind has not yet reached perfection. One may spend a profitable half hour in attempting to picture to himself the condition of some great city such as New York were all law and regulation abolished. According to the anarchists the result would be a time of quietness and goodwill. The rattle of the gangster's machine gun would be succeeded by the peaceful calm of a universal sabbath. The craft of the locksmith would be useless. Battle, murder and sudden death would vanish away and we should walk in a kind of Beulah Land—if there were no law.

A Land of Make-believe In accountancy, like all other vocations, the tearing down of all control would lead to a fraternal Utopia. Accountants would probably be induced only with great difficulty to

undertake any accounting work, lest it might interfere with the professional activities of their confrères. There would probably be a great deal of time wasted in seeking to avoid anything which could be misinterpreted by another accountant. Clients would be hard put to it to get their work done. We should live in a kind of Nirvana. At least, we should do all these things if it were not for mankind itself—and that is the factor of the equation which our correspondent prefers to ignore. This is a pragmatic world and there is no way of making it anything else, except by the gradual process of education and betterment which has been going on ever since a man appeared above the life of the jungle. It is not harmful to speculate upon the possibilities of what may be when all men are imbued with a sincere will to do right, but in the meanwhile, before the coming of that desired day, it is the part of wisdom to lock the doors. It has frequently been said in various forms that laws are not written for the law-abiding. It is not necessary to tell a decent man that he must not steal nor lie nor murder nor injure in any way his neighbor. He does not wish to do so. His innate gentility teaches him what to do. In other words, conscience is the guide. But, on the other hand, there are many men and women who are not inspired by a knowledge of right and wrong, and for them laws are written and on their account laws are enforced. So it is in all the professions. The codes of ethics are due entirely to the fact that many men will not be ethical unless forced to be so. Probably it is safe to say that most members of any learned profession have no possible need whatever for a code of ethics or any control in the guidance of their professional relations, but there is the minority, alas, and so we have and must have rules of conduct so that those who do not know or do not wish to know may have impressed upon them the necessity of behaving in a professional way.

**Laws and Admin-
istration**

Our correspondent goes further and alleges that the attempt to enforce rules of conduct is doomed to failure.

In these days there is a great deal of that kind of talk. Because some laws which have been written are distasteful to a great number of people and it has not been possible to enforce them adequately, there is a tendency to say that all law is useless. Now, as a matter of fact, the so-called prohibition laws of the United States are not enforced for two reasons. In the first

place, it seems to be impossible to engage a corps of men to administer them without including in that body a great many unscrupulous members to whom administration means merely the opportunity to extort bribes. In the second place, and this is the more important, the liquor laws are not enforced because only a minority is strongly in favor of enforcement. There is a great mass of indifference, and there is a strong faction of the public which constantly defies the law. It is written in the history of legislation that in such circumstances there can be no comprehensive administration. Then we have, of course, the so-called speed law which every driver of a car breaks daily. This law is not enforced because nobody wants to enforce it. Whenever a sign appears to the effect that speed must not exceed twenty miles an hour that is an invitation to the breaking of law. Arguing from this point, those who feel as our correspondent feels may contend that every law encourages contravention by the mere fact of existence. This is true to a certain extent, but that truth is not dominant. It seems to be a reasonable assumption that any law which attracts the support of the majority is a good law and can be enforced. For example, if we had established anarchy we should have no law against stealing or murder. We have such laws and they are reasonably well enforced, because an overwhelming preponderance of opinion favors their enforcement. More and more as the world advances the reign of the majority increases. In accountancy, which is the subject of this present consideration, the vast majority of practitioners will be found in favor of the enforcement of rules which make for the protection of the public and the enhanced prestige of the profession.

**The Distribution
of Practice**

In the course of an address delivered at the annual meeting of the American Institute of Accountants, Maurice E. Peloubet presented some interesting figures relative to the audit of the accounts of corporations whose securities are listed on the New York stock exchange. He said: "A recent check of corporation stocks or bonds listed on the New York stock exchange is interesting. It shows a total of 1,056 companies, of which 701 publish accounts certified by 102 public accounting firms or persons. The points of present interest are that two-thirds of the listed concerns are audited and the head offices in the United

States of 58 of the 102 auditors are in New York. These 58 do about 90% of the 701 audits." A further analysis of the distribution of work among the accounting firms produces the following figures (firms are indicated by letters): (a) 146 companies, (b) 71, (c) 71, (d) 56, (e) 49, (f) 48, (g) 27, (h) 24, (i) 15, (j) 12, (k) 11, (l) 10, (m) 10, (n) 10, (o) 8, (p) 7, (q) 6, (r) 6,

84 firms and persons having 1 to 4 audits 114

Total certified 701

Not certified 259

No information 96

1,056

Some figures recently compiled by J. M. B. Hoxsey, executive assistant to the stock list committee of the New York stock exchange, produced slightly different results, but apparently Mr. Hoxsey did not include listed bonds.

Too Much Concentration

The concentration of professional work in the hands of a comparatively small number of accounting firms is an indication of a condition not altogether healthy. There are hundreds of competent accountants scattered throughout the country who are well qualified to render the professional service required by corporations, and it seems a pity that there should be such strong inclination to restrict engagements to a small number of firms at the expense of the greater number. Of course, the same condition exists in almost every department of life. The trite old saying that nothing succeeds like success is most eloquently demonstrated in this. It is probably purely idealistic to hope for an even distribution of professional work throughout the profession, but something may be done and ultimately will be done to impress upon clients and potential clients the possibility of obtaining excellent professional assistance locally. The same sort of thing prevails in the medical profession. There are a few surgeons of great name to whom everyone having the means of approach desires to go in times of serious illness, but there are thousands of men probably equally competent and near at hand who are overshadowed by the importance of a great name. It is only fair to say that in many cases the gravitation of accounting engagements to a few offices is in no way attributable to effort on the

part of firms engaged. There are, of course, some unworthy things done by firms which have fairly large practices, but for the most part the growth of practice is spontaneous. The heads of many of the large firms are much concerned by the unwillingness of clients to employ competent men wherever they may be found. Some of these leaders are sufficiently wise to know that the health of the profession will depend on the proper distribution of professional work and they are not eager to attract every possible client. Those who are really wise would prefer to see everyone succeed rather than temporarily to succeed overwhelmingly themselves.

To Certify or Not In the August, 1931, issue of THE JOURNAL OF ACCOUNTANCY appeared editorial comment on the subject of audit certificates, and the opinion was then expressed that it would be well to abandon altogether the words "certify" and "certification." Now comes Walter Mucklow, a member of the council of the American Institute of Accountants, to dispute the argument. He says:

"No quarrel is to be picked with your hope as to the washing away of the word 'certify,' but is it quite accurate to say 'Accountants should report, *not* certify'? I suggest to you that they can, with entire propriety, do both. Let us admit that many certificates are badly drawn and do not fit the case. Is that a good reason for abandoning certificates? Is it not like saying to a lady wearing an ill-fitting frock, 'Madam, you should wear nothing?' A remark which your modesty would not allow you to utter. May it not be said with truth that, usually, an accountant's work consists of three phases: (1) making an examination, (2) preparing a report thereof, (3) drawing a certificate indicating the extent of (1) and the result of (2)?

"I suggest that the entire English-speaking business world is accustomed to 'certificates' from their births to their deaths—e. g., birth certificates, weighers' certificates, warehouse certificates, and, if fortunate, C/D, and so on until finally the death certificate is reached and no further certificate is possible, except that of burial.

"Probably no documents command a wider international respect than do those of Lloyd's: the policy contains almost the same words as did the original drawn two centuries ago and every report of a Lloyd's agent or of a surveyor contains a certificate that the signer has done certain things and in his opinion the accompanying statements are correct.

"In these circumstances, would it be wise for accountants to announce that they would no longer certify?

"Again, on page 88 you beg us to 'leave ritual!' My very dear Sir, is not the utter abandonment of ritual one of the troubles of the day? Again, it is admitted that in many instances ritual had become burdensome and needed modification. As we are now using the word, it means 'any ceremonial form or custom of procedure' and while it is probably true that sentiment is usually more or less closely connected with the observance of any ritual and an individual's sentiment regarding it may be affected by his temperament, few, if any, would abolish all ritual. Bowing to a woman, rising at the entrance of a judge in court, saluting the flag, even shaking hands, are all 'ritual'—but does that afford a reason for abandoning them?

"The public is accustomed to, and expects, some ritual from members of a profession, e. g., a lawyer's opinion or a physician's prescription is couched in language inherited from the past, but modified and, sometimes, reduced to reasonable terms. Is it not well, then for us accountants to continue to respect a practice and a verbiage which might be improved, but which is as old, at least, as our profession and has received legal, professional and public recognition?"

"When all these questions are answered, it seems to me wiser to retain and improve the certificate rather than to abandon it. Are you sure that in this I err?"

To this the reply would be that ritual and tradition serve a purpose when they do not conflict with reason and common-sense. The instances which Mr. Mucklow cites are not on all fours with the use of the word "certify" by accountants. The point that we have in mind is that one can not certify an opinion. The fact that it is an opinion precludes the possibility of certification. We should like to see the adoption of reasonable terminology rather than the adherence to a misleading convention—but one always enjoys reading what Mr. Mucklow has to say.