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Editorial

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EDITORIAL

Important Papers on Accountancy

We invite the attention of readers to the importance of articles appearing elsewhere in the current issue of THE JOURNAL OF ACCOUNTANCY. These consist largely of addresses made at the meeting of the American Institute of Accountants which took place at Kansas City on October 18th and 19th. Mr. Andrews' paper, on the subject of the selection of auditors and compulsory audit, is an important contribution to the discussion which is taking place throughout the country upon the desirability of reform and the supersession of the American system of appointment by the practice of election by shareholders. Mr. Andrews' arguments will be found instructive. The paper by George O. May entitled "Influence of depression on the practice of accountancy" is another highly important contribution to the literature of the profession. It analyzes thoroughly and explicitly some of the factors which are often ignored and it reviews the great success which is attending the efforts of the New York Stock Exchange and a committee of the American Institute of Accountants to bring about better exposition of fact. One who reads this paper will almost inevitably be brought to the conclusion that if the depression has wrought immense harm it has also wrought no little amount of good in that it is enabling us better to estimate fundamental values.

**Calling Upon the
Parishioners**

A correspondent asks for advice on a point which he classifies as of ethics. It seems that he recently met a former client who expressed some astonishment at seeing him. The conversation was somewhat as follows:

"Why, how do you do, Mr. Accountant? I have not heard from you for a long while and I thought you must have gone out of practice or left town. You have not called upon me."

"I have not called upon you, Mr. Client," replied the accountant, "because I had nothing upon which to make any report. I had not been retained by you and I failed to see why I should have called upon you."

"Many other accountants have called upon me," said Mr. Client. "They are not doing anything for me, but they like to keep themselves within the range of vision. When people do not call upon me I naturally conclude that they have no special wish to undertake any of my work."

"Now," says the correspondent, "what is one to do? It seems to me repugnant to all sense of professional ethics that a man should be expected to call upon business men when there is no business to be done; and yet here is a former client—and a good one—who seemed to feel that he had a real grievance against me because I did not visit him. What is the answer?"

**Is Time So
Worthless?**

It is difficult to understand the process of reasoning which animated the client in this incident. He would not expect his lawyer to call upon him every week or month in the hope of being retained for some litigation or other professional service. He would not expect his family physician to drop in one evening a week in the hope of finding somebody ill. He would not forget the identity of either physician or lawyer simply because he had not seen him. And yet it is true that there are a good many clients who labor under the mistaken belief that the accountant should be expected to make social calls at more or less regular intervals, very much as a commercial traveller would call upon his customers whether there were any orders or not. It certainly does not add to the dignity of the profession to be placed in the category of the tradesman who calls each morning by telephone or in person to see how many oranges or packages of oatmeal will be required during the day. There are hundreds of business men who feel that the auditor or accountant engaged in public practice should dance attendance in the hope of benefits

to come. This does not keep the profession on the plane which it should occupy. It seems to infer that the client is bestowing a favor on the accountant whom he engages. As a matter of fact the position should be reversed and often is reversed. The client should feel that the accountant can render a service far more valuable to him than the fees which the accountant will receive. The trouble has been in the past that the accountant has been apt to overlook the very important question of dignity. Dignity, of course, may become perfectly ridiculous, if carried to the point of priggishness, but there is no earthly reason why any professional man should be expected to run around from office to office in the vague hope of something turning up. Of course the reputable accountants do nothing of the sort, but there is a large number of men who honestly believe that they can retain their clients only by acting somewhat in the capacity of a companion. Companions are excellent people and their services of inestimable value, but they are not practising a profession. On the client's side there is nothing to be said in favor of the calling-for-orders system. A man who is in business presumably has enough work to occupy his time and cares not for idle conversation. Every man in business can imagine an ideal state of affairs wherein no one who had nothing to do would call. Every office finds its time sadly frittered away by purposeless conversation. If a man has business to transact, let him come in, tell his story, receive his answer and depart. (If any one of those four steps be omitted let it not be the last.) Every business man might put upon his desk the motto, "Speak briefly and go quickly." We can not conceive that any busy man would care to have an accountant or any other person calling upon him simply to maintain acquaintance. There has, however, been a great change and the accountant is gradually raising himself to the position where he belongs and the client is beginning to understand what that position signifies. If only the little fellows with their keen desire to please would stop trying so hard to please, we should hear no more of the questions which the present correspondence has brought before us.

**Increasing Interest in
Municipal Accounts** The audit of state, county and municipal accounts is a matter of increasing interest to accountants in many parts of the country, and, although this branch of accountancy has

never been highly lucrative, it has some attractive features, and as time goes on the participation of professional public accountants in the work will probably increase. The whole field of what might be described as governmental accounts has been rendered unattractive to reputable accountants because of the decision (in some cases required by law) to engage accountants who offer the lowest bid for the work to be done. Of course, all bidding for professional work is deplorable, but there are many good accountants who have felt that it was better to bid than not to have the work properly done. Naturally they have made their bids in the hope of obtaining an engagement out of which they expected to derive monetary benefit or some degree of publicity which would be helpful to them in their other activities. It must be admitted that much of the work that has been done by accountants, after obtaining engagements which have been offered to public competition, has not been satisfactory. It is one of the inevitable conditions of all competitive bidding that there shall be a temptation to lower the standard of the article supplied or the quality of the service rendered when it is found that the price will not be sufficient to yield a decent profit or perhaps even to repay the actual outlay. Partly as a result of these conditions there seems to be at the moment a tendency in some states to permit almost anyone to perform audits of municipalities and the like; and it is frankly admitted by some of the authorities of states that there seems to be no necessity to restrict the practice of municipal auditing to men who are qualified as certified public accountants.

The New Jersey Scheme

One of the most widely discussed systems of governmental auditing is that provided under the New Jersey statutes, which permit registration as "municipal accountants," and according to the strict letter of the law no consideration except the payment of a fee of \$5.00 is required. As there has been a good deal of interest expressed in various parts of the country relative to the situation in New Jersey, it is a pleasure to be able to quote somewhat extensively from correspondence which passed recently between the commissioner of municipal accounts of New Jersey and Herbert M. Temple, a member of the state board of accountancy of Minnesota. Several efforts to bring about important changes in the Minnesota laws led to a search for prece-

dents in other states, and in the course of investigations conducted by Mr. Temple he entered into correspondence with the New Jersey commissioner, Walter R. Darby. The questions which have been asked by many accountants as to the practical application of the New Jersey laws and regulations were summarized by Mr. Temple in five questions as follows:

"1. If you were to rewrite this chapter [chapter 267 of the laws of 1918 providing that on the payment of a fee of \$5.00 and subscribing to specific declarations the applicant will be declared to be a licensed municipal accountant] would you express in the law itself definite standards of experience in accountancy practice such as are usually prescribed for those qualifying to take the C. P. A. examination, or

"2. Would you specify that all applicants for registration should be the holders of a C. P. A. degree and licensed to practise as such under the laws of the state of New Jersey? And, in addition,

"3. Would it occur to you that any other higher standard of professional experience or qualification would be obtained by virtue of requiring that each applicant be required to file a bond conditioned upon the faithful performance of his duties in an amount not less than \$25,000?

"4. Does the annual registration fee of \$5.00 adequately cover the expense of maintaining the registration department of your office?

"5. Would you in any manner suggest a modification or change in the penalties to be imposed, such penalties being calculated to develop promptness as well as a high standard of service to the public?"

The Plan Explained The reply to these questions reads in part as follows:

"As a preface to the particular answers to your questions, I may say that it has never been the purpose of those who are interested in legislation affecting the audit of municipal accounts to confine such auditing to those holding C. P. A. certificates in this state. In taking this position no reflection is intended on C. P. A.'s, but the idea was to open the field to anyone who was qualified or who could qualify as an auditor of municipal accounts in this state. Making an annual audit compulsory by statute increases the cost of municipal administration and in this state we have a large number of small municipalities whose accounts are not complicated and therefore may be audited by one who is not a C. P. A. The field was left open intentionally with the idea of reducing the cost of auditing municipal accounts. Along with this was the idea that the auditor should be judged by his work and that, if he were unable or unwilling to make an audit as it should be made, his licence would and could be revoked or a renewal of licence denied by the commissioner of municipal accounts.

"With the above preface, the answers to your questions as listed follow:

"1. The answer to this question might well be the practice which has been in force for some time. Examinations are held twice a year to determine qualifications of applicants for licences as registered municipal accountant. While this may not be strictly in accordance with the statutes, the statute provides that a licence may be revoked or a renewal of licence refused for any reason which the Commissioner may deem good and sufficient. Our position is that if this holds for an existing licence or a renewal, why does it not hold equally for an original application? Under the original act a tremendous burden was thrown on the department because anyone by subscribing to the statutory declaration and paying the statutory fee was entitled to a licence. The result was that the department was conducting a school of auditing for a nominal fee under which an individual might go in business and charge from \$15.00 to

\$25.00 per day for his services. The burden became so heavy that we had to do something to determine the qualifications of an applicant, and since this procedure was instituted the number of successful applicants has been materially reduced. It may be proper for me to state here that the writer holds no degrees in accountancy of any kind. Whatever I know of municipal accounts and municipal finance has been obtained through practical experience, and I therefore have something which no one can take from me. I do not wish to be understood as having anything against those who hold accounting degrees, but I maintain that municipal accounting is one of the most, if not the most, highly specialized branch of accounting, because it has to do not only with accounting as such but with the laws of the particular state governing municipal corporations, and no one can successfully audit the accounts of a municipal corporation of any state without first acquiring the knowledge of the powers of municipal corporations in that state, the systems of tax assessments, tax collections, tax liens, etc., so that, no matter how much one may know of accounting itself, further specialized knowledge is needed in the audit of municipal accounts. No matter how well qualified one may be as an accountant he must have special qualifications with regard to the laws of the state in which a particular municipal corporation is located.

"I do not feel that the present law is all that it should be and I do feel that the law should contain certain standards or some method to ascertain the qualifications of an applicant.

"2. While the holders of C. P. A. certificates are presumed to know the principles of accounting and accounting methods, these, as I view it, are not sufficient for the reasons stated above. Our experience with C. P. A.'s leads me to repeat the statement, which I have made many times, that many C. P. A.'s are machine made and are capable of auditing municipal accounts where everything is all right, that is where proper and competent records are properly maintained, but many of them are lost when they are confronted with situations where careful thought and analysis are required.

"3. I question whether filing a bond for faithful performance of duties would act in any way except as perhaps a moral restraint. In order to recover under the bond it would be necessary to establish the fact that the duties were not faithfully performed, which it seems to me is a rather difficult matter to prove to the satisfaction of a court. I have no doubt, however, that requiring a bond would act as a moral restraint.

"4. The annual registration fee of \$5.00 is not adequate. The fee should be \$25.00 a year instead of \$5.00. Even this would not be sufficient to cover the cost of checking the audits with the necessary correspondence, filing of revisions and amendments to the audit, etc. However, it is a question of policy as to what extent the auditors should be required to cover the cost of such work.

"5. We have had difficulty in securing the prompt filing of audits, due to several causes; the main one being the disposition of certain accountants to undertake more engagements than the organization can handle in the required time. Along with this is the fact that the fiscal year of all municipalities and counties of the state is the same as the calendar year. The audits are required by statute to be filed not later than the first of May following the close of the fiscal year and thus conflicting with income-tax work. Here again we have attacked the problem from the practical standpoint of insisting that the auditor curtail his work, in some cases of acute procrastination issuing a limited licence for a particular engagement, no further engagements being permitted until the report of audit of the previous engagement has been filed.

"I am not very much in favor of statutory penalties, particularly monetary penalties. My reaction is that they are very troublesome and that they create an unfavorable impression if the penalties are enforced. It is, of course, a good thing to be able to place the burden on some one else, that is, the legislature which by statute provided the penalty. On the other hand, I feel that the responsible official should have adequate power and accept the responsibility for seeing that the work is done as it should be done."

**Need for Competence
Is Imperative**

There is much in this reply of Mr. Darby that can be taken to heart by accountants everywhere. There may not be any great solace in the thought that anybody can act efficiently as auditor of a municipality—and we doubt if there is very sound reason to accept such a dictum. It might be a sorry day for any municipality which appointed “anybody” as an auditor without qualification other than a willingness to audit. On the other hand, many small communities which must have their accounts audited would be unable to pay even a reasonable fee to a professional man, and perhaps the best that can be done for such cases is to license persons who are presumably honest and have some little knowledge of accounts to investigate the financial affairs of small communities. It is quite well known that there were some horrible examples of faulty or perhaps crooked reports rendered by municipal auditors. The ideal solution of the whole problem would be the appointment of competent, professional accountants to investigate the affairs of all governmental units. These men should be paid their proper fees and should not be restricted by a parsimonious policy. It would probably pay any state to engage only the most competent men and to give them their ordinary fees for work done. Of course, that can not be—and so it may be found that in the long run the New Jersey scheme is as good as any that could be devised, bearing in mind the conditions and not only the theories that confront us. Perhaps the standards of qualification demanded of the applicants for registration in New Jersey can be raised gradually until they are sufficiently high to bar out the incompetent. It will be many a day, however, before municipal, county and state audits offer anything like an attractive compensation to the professional practitioner.

**The Democracy of the
Unemployed**

The Massachusetts department of education, university extension division, recently issued a bulletin upon the general subject of opportunities for unemployed persons, and one of our readers has sent a copy of the bulletin, pointing out in particular the opportunities for earning money. Under the heading “Building a Service Route,” among others appear the following:

“Furnace and cellar route.

“Evening care of children during absence of parents.

- “Installing a bookkeeping system for small stores.
- “Dog-washing route.
- “Shampooing, manicuring, and finger waving.”

The bulletin then goes on to suggest methods of practical instruction in these arts and sciences. Our correspondent is attracted by the juxtaposition of auditing and dog-washing, but that is nothing to the indicative subject of finger waving. We are a little cloudy as to what finger waving may be, but if it has anything to do with a monitory gesture it may have a place in accounting.

Where Accountancy Seeks Company

While on the subject of the association of accountancy and other things it is interesting to quote from a letter received from a subscriber in one of the Pacific coast states.

“Several days ago I had occasion to do some window shopping and was attracted to a card in the window of a business establishment. On the card was printed in large letters ‘Public accountant.’ Around the card were other signs reading, ‘Apartment for rent,’ ‘Three room modern house for sale,’ ‘Notary public and conveyancer,’ ‘Automobile liability insurance,’ an advertisement of a steamship company, and on the window was written, ‘Mortgage loans, real estate, general insurance and investment bonds’.”

The correspondent who drew attention to this combination of activities wished to know if the advertiser was a member of the Institute. Fortunately the answer was No. However, anyone who is familiar with British practice will recall scores of combinations of activity in which public accounting plays a prominent part. Here in this country we have fortunately avoided the too inclusive scope of work which some foreign accountants seem to find necessary. It must be confessed that there is nothing very impressive about a range of activities which covers everything from accounting to insurance. Indeed there is a danger in the combination of those two kinds of endeavor lest the accountant at times be regarded as an insurer.