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Editorial

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The JOURNAL of ACCOUNTANCY

Official Organ of the AMERICAN INSTITUTE OF ACCOUNTANTS

A. P. RICHARDSON, *Editor*

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EDITORIAL

A Legal Department THE JOURNAL OF ACCOUNTANCY has pleasure in announcing that beginning with the issue of January, 1933, it will devote a special department of the magazine to the reporting of court decisions throughout the United States dealing with questions of accounting, accountancy, the regulation of the practice of the profession and other matters which have a direct or indirect bearing upon accounting practice and technique. It will obviously be impossible to present an absolutely complete summary of all decisions in which the words "account" appears, and, indeed, most of such decisions are of no consequence whatever, but nearly every month there are some decisions in which every accountant would feel an interest, yet too often these decisions remain unknown beyond a local circle. Sometimes there comes a decision which is of transcendent importance to the whole profession, such as the judgment rendered by the supreme court of Tennessee declaring a so-called "restrictive" C. P. A. law unconstitutional. Every accountant should know about that decision. Sometimes there are decisions in foreign courts which may have a bearing upon future cases in our own federal or state courts—and they will be briefly summarized in this new legal department. The method of presentation will be simple and explicit. When a case is not finally settled and is under appeal there will be a brief statement of the parties, the cause of action and the decision of the lower court. When the matter goes up to the next court, if there be further appeal pos-

sible, there will be a similar exposition of the plain facts. When the matter has reached its court of last resort, if the subject be of importance there will be a fairly comprehensive synopsis of the judgment. In cases in which the points at issue are highly technical the editor of the new department will explain in non-legal language the significance of the case. For example, if a law is declared unconstitutional and the court in its dictum is not explanatory of the grounds for the decision we shall present the constitutional provision which the judgment declares to have been contravened. Matters of peculiar importance will be discussed, as they have been in the past, in the editorial pages of the magazine. We are glad to be able to announce that the new department will be conducted by Harold Dudley Greeley, who is a practising lawyer in New York and Connecticut. He formerly practised as a certified public accountant of New York. He is the author of works of importance. His most recent volume, *Law for Laymen*, was published last summer by the publishers of this magazine and has met with a most enthusiastic reception. Mr. Greeley will welcome suggestions which readers may care to send to him and will include comments in his department when subjects of importance are brought to his attention. He will not, however, conduct a question-and-answer department. Readers who have legal questions to ask will have to consult their own attorneys. Our department is merely to present a summary and explanation of important decisions which may have an effect upon the practice of accountancy.

**Temporary Relief
from Fees**

The *Bulletin* of the American Institute of Accountants published November 15, 1932, contained a brief announcement that for a period of one year the American Institute of Accountants will, in effect, waive the requirements of the by-laws for the payment of initiation fees. The council, in voting to relieve applicants of the obligation of paying more than may be convenient in these times of stringency, was animated by a spirit of fairness rather than by any thought of departing permanently from the existing rules. When times are normal it is certainly not too much to ask of any applicant that he pay the initiation fee of fifty dollars, which has always prevailed since the beginning of the Institute. However, we have never passed through other times quite so trying since the Institute was inaugurated, and there are many

men and women who have expressed an eagerness to join the Institute but have been prevented by the fact that the expense was greater than they could afford in the present circumstances. It is confidently expected that before long there will be sufficient activity in accountancy to make the question of fees unimportant. But during the present year, which ends August 31, 1933, there will be no superabundance of cash in anybody's hands, and accordingly the council determined to meet the issue in the only way which seemed to offer. Probably a considerable number of eligible accountants will take advantage of the opportunity which is presented. At any rate, the temporary ruling is a gesture of cordiality which must have an influence upon those who are thinking of affiliating with the professional organization.

The Niceties of Professional Conduct

At the annual meeting of the American Institute of Accountants in Kansas City, the council, sitting as a trial board, heard and adjudicated charges preferred by four members of the Institute, engaged in practice as a firm, against another member of the Institute who had formerly been in partnership with some of the partners of the firm. The accusation alleged that the defendant had approached clients of the firm and had informed them that he was leaving the firm and wished to be retained as their accountant. It was alleged that when the defendant had later associated himself with another firm he continued to solicit the clients of his former associates. The defense rested upon the contention that there had not been solicitation of the firm's clients but only of certain clients whom the defendant believed to be either his own or those of a former partner with whom he, the defendant, had been on terms of close friendship. The defendant argued that having been a partner in a firm which was terminated before the formation of the new firm which made the complaint, he had a perfect right to communicate with any clients of the old firm as they were as much his clients as they were the clients of his former partners. The charges were brought under a rule of conduct which prohibits the solicitation of the clients of another member of the Institute. The board evidently felt that, while this case had some merit on both sides, the conduct of the defendant was not becoming in an accountant and was not creditable to the profession. It was resolved that this view of the trial board should be explained, so that accountants generally might

know that the trial board was firmly convinced that even in such circumstances as those which surrounded that case there was no justification for endeavoring to divert accounting practice from one office to another by means of solicitation. This case is of considerable interest because it seems to mark a distinct step forward in the control of the profession. The trial board, which consists of all the members of the council, has clearly adopted the view that it is not enough to be technically proper but that there must be also, above and beyond anything definable, a spirit of professional courtesy if men are to be regarded as worthy of membership in the Institute. It has often been said that the American Institute's code of ethics is the highest of all the codes of professional societies in the United States of America. There are practices which may be adopted in almost any other profession without reprimand that will meet with condemnation under the Institute's code. This is all worthy. No code of ethics can be too high, if men can follow it. And there is nothing in the Institute's code or in its interpretation, including this most recent case, which will interfere with the proper gentlemanly conduct of the profession.

The Sawdust Trail It is a hopeful sign when bankers begin to talk frankly about their responsibility for much of the financial difficulty through which the people of the United States have been passing. It has been a common allegation that bankers were so completely self-satisfied that it was hopeless to expect any spirit of contrition or any substantial effort to bring about an important change. The depression has done some very splendid things for most of us, and one of them is a sense of blame which bankers of high standing have been induced to assume. In a recent issue of the *Saturday Evening Post* an article by Frank A. Vanderlip, formerly president of the National City bank, New York, discusses impartially the status of the banks, and he freely admits that a great part of the depression might have been averted had the bankers been imbued with greater wisdom and less smug content. The substance of his comments should be taken to heart by bankers and business men generally. For example, he says at one place, "The primary cause of more than ninety per cent. of those collapses [bank failures] has been bad management. I am not giving merely my personal opinion. I am stating a fact of which I have proof." He analyzes

developments which have transferred the chief function of many of the banks from commercial to investment banking, and he points out that when a large proportion of loans is secured by collateral there is no protection worth while when collateral loses its value. We are peculiarly interested in his concluding suggestion that a questionnaire should be devised by the clearing house committee, the federal reserve bank and the New York stock exchange to obtain from issuing houses full particulars of proposed flotations. Such a questionnaire, he believes, should reveal the spread between the buying and selling prices, detailed information as to the use the corporation agrees to make of the funds obtained from a bond issue, a later check by engineers to certify that money obtained for construction purposes had actually been properly devoted to such construction and what commissions or bonuses had been paid. "The public is entitled to know where the business of a new issue originates, who is getting the money, who is being bailed out. Let the banks provide the bond buyer with frank statements along such lines and there will be far less probability of onerous legislation being forced upon them, and bond buyers will fare better than they have in the past."

**Another Important
Means of Grace**

This is all to the good, but Mr. Vanderlip seems to have overlooked one important factor with which he certainly is quite familiar. He omits to mention the indispensable function which the accountant performs in the exposition of clear, informative accounts. Probably, as Mr. Vanderlip says, the bankers have not fully realized their duty and have not been fair with the investing public. They could have insisted upon a much better system of reporting than they have demanded. The depression, as has been said, seems to be effecting a salutary change of heart, and the banker, now, while the evil times are still with us, is full of repentance and ripe for reformation. Whether this lowly spirit will continue or not is a point to which the future must supply the answer. At any rate, for the time being there is an honest willingness to admit that there may be something rotten in the state of banking. Certainly it is so, if ninety per cent. of the failed banks have been mismanaged prior to failure. Nearly everyone agrees that there has been a vast amount of bad banking, but ninety per cent. is an extraordinarily high figure. However, Mr. Vanderlip knows the banking subject better than most

men know it and his words of warning, his cry of "Peccavi," published in a magazine which has a wide circulation among all classes of the community, is a most important record. It should do much to encourage reformation. What is being done by the American Institute of Accountants and the New York stock exchange through their coöperating committees is destined, we trust, to accomplish much of the reform which Mr. Vanderlip and others feel should influence the preparation of all financial statements. The great banks now seem to offer an attractive medium of investment in their own stocks, and probably the public more than ever before will become personally interested in the conduct of the banks whose stocks are not closely held. It will then be all the more important that the full, frank and competent statements for which Mr. Vanderlip and many other writers cry shall be forced into the view of the public.

A Common Interest In the old days when sailing ships carried the merchandise of the world across the seven seas a Yankee clipper was running down the southeast trades in the south Atlantic. Two men, in their watch below, were sitting in the shadow cast by the fo'c's'le head discussing the things that every sailor must discuss—the weather, the last port, the boarding houses of the world and the comparative charms of the girls everywhere. One of them said, "Do you know anything about New London? There's a red-haired milliner there who likes salt water. When I was in port last time I stayed at a boarding house kept by the Widow Leppard and it was very comfortable." The other man replied, "Did you stay there, too? Why, I spent a month there between voyages." And straightway these two men, having something in common, even if only the memory of a sailor's boarding house, felt a nearness to each other, and before the voyage was over they were known as chums. And it was all simply because they had this faint thread of a common interest between them. In the impressive grandeur of the Gothic chapel of Princeton university two students sitting at service on Sunday morning were suddenly attracted to some reference which the speaker was making to matters in the Orient. The one student was an American, fair haired and stalwart. The other was a Chinese, dark and of short stature. But something in the reference to the Far East struck a common cord and the American laid his hand upon the Chinese student's shoulder with

a touch that was almost affectionate. They had discovered something which was a common interest. These two illustrations could be multiplied without end, but they serve to reveal the fundamental principle which we are trying to expound, namely, that when men have a common interest they can overlook the distances, even the racial inheritances and embark as members of the same crew upon some argosy.

**The Cause May Be
Anything**

This is the principle which makes for the success, nay, it renders almost imperative the holding, of meetings, convocations, conventions or whatever they may be called, wherein men, having a similar purpose and aim in life, can get together, exchange knowledge and experiences and discover what almost always underlies, a common interest. It is not necessary that there should be exactly parallel purposes. Two men having identical ambitions and desires may be entirely devoid of that intangible something which we have called a common interest. Their rivalry may absolutely prevent anything common between them. Two men may worship in the same church and ostensibly desire the promotion of the kingdom of God in the same way but have very little in common. Their religion may not be sufficiently religious to give them the common interest. Men engaged upon educational effort, which is supposed to be a leveler, may not have that sympathetic interest in some common thing which will give them the sense of intimate fellowship. Robinson Crusoe and Friday represented the two poles of social condition. They were separated by the law of master and servant, by the tradition of race, and by the possession and the lack of knowledge, and yet they discovered a common interest and have gone down in literary history as fellows. Sometimes it is very difficult to ascertain what is the precise nature of the thing which excites a common interest. Men may not know, or perhaps not fully understand, that the thing which draws them to some other men is nothing in environment, nothing in similarity of character, nothing in common outlook, but some strange thing which makes one man know that another man has a vital interest in something that interests him, and so he has a readiness to understand the other man and an eagerness to defend him and a desire to associate with him—all because of this common interest.

**Conventions Present
Great Opportunities**

That, it seems to us, is what supports the spirit and performance of convention, using the word in its literal sense—a coming together. The word is preferable to any of the other words which are used to describe gatherings of men or women, if in convening there be also a meeting of the minds. This was impressively demonstrated, as it has been many times in the past, at the recent meeting of the American Institute of Accountants in Kansas City. There were men from all parts of the country who conduct practices, varying from the largest to the least, men having a purely local spread of clientele and others having clients around the world. But when they met outside the meeting rooms and talked in corridors or over luncheon tables or on the golf course, one could frequently see that they were discovering a common interest. It may have had nothing whatever to do with accounting or the practice of accountancy; it may have been something entirely apart from any matter under discussion at the meetings; but there was, it seemed this year more than in any other, a purer democracy. Men got closer to each other in spirit. Perhaps it was because the depression had removed some of the barriers between the offices of the various firms, or it may be that the profession is growing up and learning that some of the things which seemed so tremendously important in the past have really no lasting significance at all. There was an almost unbroken harmony in the meetings of the men from all parts of the country and all of them felt that it was good to be there.

**The Benefits
of Fellowship**

Of course, everything that could be said in the way of logical argument in favor of annual meetings has been written and said a thousand times in a thousand places, and there is nothing new in the realm of fact which can be brought forward to convince the unbelieving that meetings are worth while; but every man who has attended meetings of his fellows, especially those who attended the one which we are now considering, will realize, if he stop to ponder the matter, that there was great virtue in the striking of hands and the exchange of greetings. Perhaps accountants present a more generic resemblance to each other than most other callings can produce. There are good accountants and, alas, bad accountants and a great many accountants in between who are very Laodicean. They may be concerned with

the audit of a country grocery or the consolidation of world-wide corporations; but their mental processes are somewhat alike and the things they have to do are not so different as they might at first glance appear. It is doubly regrettable therefore that in the early days of accountancy there was so much bitterness, so much rivalry and such an unwillingness to think class thoughts. All that is changed today. With the exception of an outcast here and there, who feels that the hand of the world is against him, most accountants are becoming class conscious, to use a hackneyed and vile expression, and probably nothing has done more to bring about the improvement than the annual meetings of the American Institute of Accountants, supplemented considerably by the more frequent meetings of local societies.

**The Other Fellow
Has His Virtues**

Accountants have learned now that their neighbor across the corridor is not engaged in murder, arson or embezzlement. He is not a crook, but really a very decent fellow who is trying to do the best he can. Perhaps if it had not been for the meetings, with their good fellowship, the old feeling would still linger and we should have acrimonious argument, attack, competition and all that interferes with progress. Many meetings have come and gone, and each seems to be productive of better results than its immediate predecessor. This, it seems to us, is largely because two or three men and groups of men and finally whole societies of men discover a common interest. They are all soldiers fighting in the same army and they have the same enemy and the same difficulties of the road to overcome, and when they can get together and tell each other what they know and how they feel it will be strange indeed if somewhere within the line of march or in the contiguous territory there be not found something which will create a common interest. It has been said that it pays to go to annual meetings because men become known to each other. The man in San Diego, California, who has to have professional assistance in Eastport, Maine, will be almost sure to call upon the Eastport man whom he met at the last convention, and the man in Eastport who has been to the convention and met the man from San Diego will think of that man first when some professional aid is needed in that pleasant corner of California. This is all true enough. Many men have attributed their success largely to the fact that they have been able to meet intimately other men

who were helpful to them and to whom they could be of help. To attend the annual meeting of any professional organization pays actual dividends in cash. But that is not of such lasting importance as the opportunities which are afforded for the discovery of the common interest, which is the thing that makes for peace and progress in this world—and probably in the next.