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Editorial

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EDITORIAL

Fruits of Experiment One of the most interesting and intricate problems that have arisen from our national departure from the gold standard is the question of the valuation of assets. Its complications are almost limitless, and if the accountant is to be absolutely logical he will probably find himself confronted with the necessity of building up a scheme of dating which in the last analysis will be based upon the standard from which we have departed. For example, if accounts receivable are payable in dollars, in order to be accurate we must know the date when the dollars are paid so that we may ascertain the worth of the dollar itself at the moment of payment. Inventories if valued at cost or market, whichever is lower, must be further classified by cost at the date of purchase in dollars of that date or by market at the date of valuation in dollars of that date. If an item in the inventory cost \$100 at March 4, 1932, it may be regarded as worth \$100 in gold, for at that time we still clung to the gold standard. Today the same item may be worth \$100 according to the market value, but in reality, if we revert to the consideration of the gold standard, it will be worth only \$70 of gold. To add further confusion to the question, let us suppose that the item which was purchased on March 4, 1932, for \$100 is worth in the present market \$130 at seventy cents gold to the dollar. Which is lower, cost or market? Again, is it just and fair to carry at par even government securities issued prior to March 4, 1932, bearing the gold payment clause and purchased, let us say, on March 1, 1932? Is it fair to carry such assets, which are selling today at 102, as though they repre-

sented a market price higher than cost? It has been announced that the government will repudiate the gold clause of its bonds and many people believe that this is not only unnecessary but altogether unworthy of a great nation. If the repudiation of the gold clause is to be upheld by the courts, where it will ultimately be tested, it is quite certain that market prices today are much lower than cost and consequently the true worth of what was supposed to be the highest quality of security is at substantially less than cost, and there has been a net loss of approximately 30 per cent.

What Is Value? How much further the decline of the gold worth of the dollar will go it is impossible to foretell. If inflation be avoided there may be some reason to believe that we have reached the depths and that the dollar will have real value of greater amount than at present. Then, again, there is the question to what extent the present enormous advance in gold mining stocks should be reflected in the accounts when it is known that if the nation returns to sound money there will be a sharp decline in the dollar value of gold. The whole thing is so intensely problematic—we are wandering in such utter darkness, that even the most confirmed advocate of the present policies must stand aghast. All this illustrates with peculiar force the futility of attempting to regulate values by legislation. Of course, it is being said by some theorists that the gold standard really has no meaning. We are concerned purely with dollars. We buy so much material for so many dollars, and we sell such and such goods for so many dollars, and it makes no difference whether the dollar is worth one cent in gold or 100 cents. This might be true if there were only one nation in the world. It might even be approximately true if any nation were entirely self-contained. If the people of such a nation desired to have a standard of currency based upon sea-shells or wampum it would be fair to all concerned, provided everybody was willing to accept and to pay in the chosen medium of exchange. But this is not so. The gold standard is admittedly imperfect. No one has ever claimed that it satisfied every requirement of sound economic theory, but on the other hand no one has ever suggested a standard which has worked half so well, and, in the absence of perfection, it is wise to accept what approaches nearest to perfection.

**What Is Money
Worth?**

We believe that there was never any necessity at all for America to depart from the gold standard. The decision to do so was prompted, no doubt, by a hope that a little more flexibility in standards would lead to a greater activity in business. The only result which has been evident to most of us is the advance in the dollar cost of everything, while the number of dollars received has remained stationary or even has declined. There have been some advances in wages, but these are much more than offset by shorter hours, changes in numbers of employees and the grievous uncertainty which always prevails when no one really knows what anything is worth. We are in a condition somewhat like that familiar to the residents of China where there are many currencies and many standards. It is possible to start out in the morning with \$100 of "big money" and to spend \$20, receiving in change more than a hundred dollars of "little money." Perhaps here we shall come to the practice of saying that we have bought in dollars of August 31st and sold in dollars of September 1st—which may be two different kinds of dollars. Accountants are supposed to enjoy the raveling of difficult financial tangles. If that be true, accountants should now be the happiest men in the world for they have knots before them which seem to be hopelessly complex. And the whole difficulty is worse confounded by the impossibility of foreseeing a day ahead. It will not be an easy matter to return to the gold standard and to say that the dollar again is worth a hundred cents in gold. It may never return to such a basis of valuation. If it were stabilized at today's gold valuation there would be a loss of about thirty per cent. of our capital—there are, it is said, still a few people who have capital. We should go through the same tragic experience as that which befell in Germany and France and Italy when the currencies were pegged at a given point far below the original gold value. There is serious talk today of an early return to gold as a standard in Great Britain, but few believe that it will be possible to regard the English pound as the equivalent of \$4.86 cents in gold. More probably the point of stabilization will be somewhere in the neighborhood of \$4.00 in gold. If this be true there will be a reduction of capital in Great Britain of somewhat less than twenty per cent., and if we are to stabilize at seventy per cent. of the old value, we shall be losing, as we have said, thirty per cent.

**The Gold Standard
Might Have Prevailed**

The saddest part of it all is that it was not necessary. Many people are saying that they honestly believe that the depth of the depression was encountered somewhere in the spring of 1932 and that business from that time showed genuine signs of improvement. Then we began to deal in theory in the hope of accelerating the resumption of activity, and today, while the number of dollars changing hands is greater, there is a doubt whether actually we have advanced or not. It is all quite beyond the realm of ordinary comprehension. Perhaps there is some one who understands the true significance, but his voice has not been heard. After the world war nearly every economist and the great majority of business men were quite confident that we should never return to the dollar of 1913. They maintained that the purchasing power of the dollar would never rise so high again; yet we did go back to the 1913 dollar and somewhat beyond it. Now every one is saying that we shall never return to the dollar worth a hundred golden cents. It seems almost too much to expect, and yet, with a true faith in the recuperative power of America, we predict that whatever the pain and travail of the way back to stability, we shall endure it and somehow in some good day we shall be as we were before we listened so credulously to alluring theories.

**Governments Under
Audit**

The American City for August, 1933, under the general heading, "Forward Steps," contains a brief article by George C. S. Benson of the Harvard bureau of research of municipal government, which says, in part, "though the depression has shown us that American cities are conducted on a higher ethical plane and fulfill more important purposes in the communities than private business, it has also taught us the need of efficient and business-like government to avoid heavy tax rates." The author then describes briefly the plan for the audit of municipalities in Massachusetts. At the conclusion he says:

"The audit has been kept free of politics. Auditors do not work on their own cities. Payments may be questioned but can not be disallowed by the auditor as in England, so it is up to the city to wash its own dirty linen. Almost the strongest critical language used in the auditors' reports is: 'This balance-sheet shows the financial condition of the city to be such as to

require the serious consideration of the mayor and city government if the credit of the city is to be maintained and business carried on in a legal manner. Further conclusions are to be drawn by the city council or by the voters at the next election.'

"Education is one of the greatest values of the state audit. Recommendations for bookkeeping improvements are to be found in every report, while unwise practices, like viewing a credit balance in surplus as available for expenditures, have been stopped. Turning all cash receipts into the treasury, collection of long overdue taxes or bills and other sane practices are regularly advised. As the knowledge of the auditor's helpfulness spreads, a steady stream of municipal officials telephone or call at the state house for advice on finances.

"The accounting system ties in with reports of municipal finances, which are among the most useful and reliable in the country and which fit the census bureau classification. Thus political statisticians as well as municipal officials, councilmen, city creditors, find the work of value."

Intolerable Burden of Taxes

The arguments adduced in the article from which we have quoted will, it is hoped, appeal to taxpayers throughout the country. At the present time the burden of taxation, especially in certain kinds of business, is almost unbearable, and many industrial undertakings are at the verge of closing down because of taxation which they consider practically confiscatory. It has been said by nearly every public speaker that the greatest need for reform in this country is the avoidance of unnecessary taxation—taxation which is due in great part to the extravagant manner of conducting the business of most of our municipalities and states. There has been such a welter of graft and corruption that the money required to carry on government, with all its accretions of political crookedness, makes it almost imperative to levy taxes which are destructive. Every one of these public speakers has pointed out that if we could avoid all the waste and wickedness of administration our taxes could be reduced to an amount which would be easily borne and the whole business of the country would profit thereby. The only sufferer would be the grafter whose sources of revenue would be cut off at the fountain head. Everybody knows these things but nobody succeeds in doing anything about them. The ramifications of political organization are so far reaching and all embracing that it seems impossible to effect reform. In such circumstances the auditor's

opportunity to assist the whole nation is unparalleled. If the taxpayers would insist upon adequate and not purely perfunctory audit, often by incompetent favorites of the powers, the evils of our system of government would be exposed and sooner or later the public would arise and demand that there be an end. The public can do exactly that, and, if its voice is sufficiently loud and continuing, there will be a cleansing of the stables which will hasten, more than any other one thing could hasten, the return of prosperity.

**Expert Assistance
Available**

Naturally the detail of economy can not be understood by every citizen; consequently in business there is demand for lawyers, accountants, engineers and the like to supply the needed technical advice. For example, the enormous growth of accounting practice in the last fifty years has demonstrated that expert knowledge is now considered indispensable. As a result there have been great savings in the conduct of every important business and the volume of transactions—leaving out of the count, for the time being, the present abnormal depression—has been altogether astonishing. And yet, in spite of this obvious lesson, the conduct of government, generally speaking, is in the hands of inexperienced, incompetent and often criminal elements. The government of this country is the greatest business enterprise in the land. It has often been carried on in a way that would bring disgrace and ruin to any private enterprise. Until recent years there has been an almost utter lack of common business principles and the expenditures of money have been made without thought of the past, the present or the future of the people who provide the money. Of course, it is the fault of the voters themselves for electing the kind of people which fills so great a part of our administrative personnel, but that is a condition which has prevailed among so-called “free people” from the beginning of popular government. Probably it will be many years before the electorate can be educated to the purely selfish gospel of protecting its own interests. Voters will still prefer to be made the tools for building political careers and will not quickly learn that every inefficient legislator is a direct expense to every voter. It will be far easier to educate the public to the desirability of careful and intelligent investigation of the conduct of government.

**The Time for
Reform**

What has been done in Massachusetts and other states is only a beginning. It has not brought in the millennium, but it may be an entering wedge and as such it is to be welcomed wholeheartedly. If the Massachusetts plan were adopted in every commonwealth from sea to sea there would be far less dissipation of the public's money. Even a politician—using the word in its ordinary acceptance of today—will think twice before he embarks upon expenditures for unworthy purposes if he knows that there is to be an exposition of the whole working of his plan. In this the accountant is the prime factor. We hope that the time will come ere long when all municipal, county, state and federal expenditures and budgets will be under the scrutiny of professional accountants, selected not by personal influence but upon the score of established reputation for integrity and capability. It will be a long road to the goal but every step brings us a little nearer. Furthermore, in the present conditions of excessive taxation and sadly depleted activity, the significance and effect of malign administration are more evident than they would be in times of prosperity. When everything is smiling and money is easily made it is also spent without much difficulty, and no one bothers himself about a dollar here or a thousand dollars there. Those are the good days for the politician. Perhaps if the depression be effective in arousing public opinion, it will be worth while. Certainly, during the heyday after the war we gave carte blanche to political greed and extortion. We were so busy making dollars ourselves that we did not grudge the political leech his drop of blood. Now we are anæmic and we can not stand much more exhaustion of our veins.

**A Striking Lesson
in Resistance**

The recent action of the New York stock exchange in preparing to leave the state of New York and establish itself in the neighboring state of New Jersey because of an avowed intention to impose intolerable taxes upon the brokerage business is an example of what can be done by the oppressed taxpayer. It may be said that the men of Wall Street have such prestige and so much wealth at their command that they are in a more fortunate position than most of us to insist upon relief from political oppression, but that is only partly true. The voice of the people, when it is known to be representative of most of the

people, will convince even the hardened demagogue that the time has come for a change of procedure.

Bids for Professional Work

Recent newspaper reports indicate one of the worst results of calling for bids for professional work. The case in question was one which arose from a desire to investigate certain banking conditions in one of the western states. The work was finally awarded to a firm which had submitted a bid "not to exceed \$50,000." (The figures in these notes are fictitious but the ratio is correct.) It will be noted that this was not a flat-rate quotation and apparently it was based upon a preliminary examination which had induced the firm to believe that, at the most, the fees properly to be earned would come within the figure mentioned. Possibly the figure was regarded as sufficiently large to take care of any extraordinary developments which might occur during the progress of the work. The noteworthy point about the whole case is the range of quotations. The lowest bid was for \$29,500; the highest for \$110,000. All the firms which submitted offers were engaged in practice in the state in which the investigation was to be made and presumably their salary rates and other costs were similar. The difference between the lowest and the highest must, therefore, have been attributable to an absolute lack of knowledge of what was to be done or an eagerness on the part of the lower bidders to have something to do, even at a loss. If we are to assume that one firm could have conducted the investigation for \$29,500, what shall be said of the margin of profit which the \$110,000 bidder wanted to receive? This brings into clear view the absurdity of bidding for professional work. Even if the exact length of time required for the work had been known there would probably have been a wide spread between the low and the high price, but we doubt if there would have been so unreasonable a difference. We are brought back, therefore, to the conclusion that the bidding was blindly done in many cases. On the other hand, if the work had been assigned to a firm selected solely because of its ability and reputation, the cost might have been less or greater, but, in any case, it would have been fairly computed. If the firm which quoted the low rate had been awarded the contract, it would probably have lost an enormous amount of money. If the high bidder had succeeded, he would probably have made a very handsome profit. If an accounting

firm or a firm of lawyers or engineers is worthy to undertake professional work, it certainly can be trusted to charge a fair fee. If it can not be so trusted it should never be selected at all. Consequently, bidding works to disadvantage of everyone, and the time will probably come before long when accountants will do as the engineers in some parts of the country have done: adopt a rule that they will not bid. If no bids had been submitted in the present case it would have been necessary to place the work without respect to the eagerness of any accountant to obtain it and there would have been good work, a fair fee and every one would have been satisfied. Fortunately, there seems to have been a disposition to pay little attention to the bids offered, because the selection of a fee about half way between low and high must have been dictated by a feeling that the firm selected was well fitted to undertake the work. Nevertheless, the principle remains unchanged.

Up in the Air

A firm of accountants has recently distributed a circular letter emphasizing its peculiar abilities to handle all sorts of business, especially the preparation and "coördination" of security issues. In the course of the letter it is said that, as the office of the concern is centrally situated, any part of the United States can be reached in a few hours by 'plane, thus eliminating the necessity and expense of branch offices and enabling the firm to give its clients more efficient service at less cost. Apparently accountancy is on the air—that is to say, that sort of accountancy. Such advertising is peculiarly objectionable, but there is an element of humor in it which will appeal to every business man. No doubt it will defeat its own purpose. We can not imagine an executive officer who would be greatly influenced by a statement that flying is possible; but this incident only serves to illustrate the silly futility of all such attempts to conduct practice in an unethical way. The circular letter from which we have quoted should be referred to the consideration of the constantly dwindling number of accountants who still profess to believe that the rule against advertisement is unjust.

A correspondent who has been visiting in a great western city reports that in the dining room of his hotel he read, "Entries cooked to order." He hastens to assure us that this had nothing whatever to do with the accounting department but appeared on the menu.