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Conduct of an Accounting Practice

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CONDUCT OF AN ACCOUNTING PRACTICE

THE intimate problems of an accountant's office were the subject of an address and prolonged discussion at the annual meeting of the American Institute of Accountants, September 17 and 18, 1929. Many members of the Institute who were not present, as well as many who were, have expressed a desire to have a record of this discussion. Accordingly, the paper which introduced the subject and the remarks of members and guests who took part in the subsequent discussion are recorded in this pamphlet. Every member and associate of the Institute will receive a copy of the pamphlet. Extra copies may be obtained at 25 cents each.

By order of the Executive Committee.

A. P. RICHARDSON.

Secretary.

New York, October 25, 1929.

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AMERICAN INSTITUTE OF ACCOUNTANTS

*(From the proceedings of the American Institute of Accountants,
September 17 and 18, 1929)*

President Frederick H. Hurdman: We are to have the pleasure of listening to a paper prepared by our good friend, George S. Olive, of Indianapolis, on *The Organization of an Accountant's Office*. Mr. Olive.

George S. Olive (Indiana): When I was asked to prepare a paper on this subject, I felt so honored at being asked to be on the programme that I accepted by wire. In doing so I had the feeling that I would probably be able to find in the accounting literature that has been produced so plentifully in the last ten years a great deal of information which I might be able to digest and present to you. Imagine my astonishment when I could find hardly anything at all! All that I have prepared has had to come out of my own experience, and I am correspondingly disappointed at what has been produced. I hope, however, that it will stimulate some worth-while discussion and suggestions from the rest of you. I took one liberty in giving a title to my paper, and changed it to "Organizing and conducting an accounting practice."

Please consider that this paper which I am presenting today is a report on a special examination which the officers of the American Institute of Accountants have asked me to make as to conditions and tendencies in public accounting practice, particularly as relating to practices which are local to a community, with reference to the extent of the service rendered, and correspondingly small in size. As my examination has been necessarily limited by my own experience, having been entirely in a rather self-contained business community of medium size, my observations may fall considerably short of fitting conditions in a practice of comparable size in the larger cities.

My analysis of the character of such practices at the end of the period under review compared with the same factors at various dates over the past ten years discloses that while the work ten years ago was almost exclusively detailed work on audits of the accounts of business concerns, with the preparation of reports evidencing the work done, marked changes have occurred during the period in the kind of services performed and in the position of the public accountant in the community. These changes are due to many causes, the most important of which are noted below.

First, due to the financial requirements of the world war, federal income taxes became during 1917 and subsequent years the most important single disbursement by most businesses, and the need for an accurate determination of the amount of taxable income and invested capital made necessary a great deal of constructive work on the part of the public accountant.

Second, the owners and managers of businesses have come to realize more clearly the value for credit purposes of reports from independent accountants.

Third, there has been a marked tendency toward the nationalization of business, with a resulting number of sales, mergers and consolidations of smaller units into larger ones, with a greater degree of ownership by the public. Every case of this kind has emphasized the fact that the public accountant is indispensable in such transactions.

As a result of these developments, the demands of the business public for our services have undoubtedly increased during the decade at a rate faster than corresponding requirements for any other class of professional work. While a few years ago, practically all of our time was devoted to auditing and the preparation of audit reports, it is now taken up to a considerable extent with consultations with clients, their attorneys and their bankers with reference to the past history or to the future prospects of the business. Formerly it was too frequently the case that business executives took some action and discovered months or years afterward that they might have avoided complications in income tax or other matters if they had followed some well considered plan, developed by their attorneys and their accountants.

These changes in business conditions have resulted not only in making necessary a higher calibre of accountants and other assistants in the organization, but have even affected the character of the office layout and equipment. Whereas formerly even the partners in a small firm, or the head of the organization, were away from their own offices a considerable part of the time, working at the client's place of business, and a so-called "staff room" crowded with small desks was sufficient for the needs of the other accountants, the principal's time is now devoted almost entirely to work in his office, in consultation, supervision and direction. The staff accountants also, under the plan of organization which will be suggested, respond with better work when they are provided with offices in which they can prepare with more

privacy the reports which are to reflect the results of their examinations.

I have intimated heretofore that much of this new work which has developed for us is of a kind which attorneys and accountants cooperate in handling. I have found that the leading firms of attorneys are quite willing and anxious to work with us on such matters and that in spite of the regrettable lack of training in accounting theory and practice in the customary legal education they do recognize the necessity of their clients having their transactions conform to good accounting practice. Prosecution of cases before the treasury department and the United States board of tax appeals has developed the interdependence of the two professions and the overlapping of legal and accounting practice is becoming more evident every day.

As to the physical plan of a public accountant's office and its equipment, the furnishing and the furniture must be left to individual tastes, as we probably should have as much difficulty coming to an agreement as we apparently have in adopting a definition of earned surplus. An attractive and well furnished office will impress your clients, both real and prospective, with evidence of your success. I hope that I can, however, impress you with the reasonableness of my unorthodox ideas with reference to doing away with a staff room. Any man who has the capacity and ambition to get started in public accounting, and for whose services charges are to be made on the basis that he is an experienced and capable accountant, is deserving of a quiet, well lighted and well furnished room as his business home. He can not do work of the kind which should come from our offices, using a small space in a large room with a number of other accountants. I believe that it is advisable to provide in accounting practices of medium size either a single room for each man or one room for each two men who are permanently on the staff. This will help to bring out the best qualities of the individual assistants.

This brings me to further consideration of the accountants who are taken into any practice either as employees or as junior partners. The judgment exercised and good fortune of the principal in selecting associates is the one point more than any other that determines whether the accounting practice will grow and obtain and extend a good reputation. To these associates, regardless of the extent of our supervision of their work, do we entrust the reputations which have cost time, money and hard work to build

up. It seems quite unnecessary to emphasize the desirability of choosing these men from those who have been well prepared by adequate school and college training, men of integrity and personality who appear to have some natural liking or aptitude for the work. Such men will take as much interest in preserving and extending the standing of the organization as the principals themselves. Proper leadership of the principal will of course inspire the assistants to follow his example and even to compete with him in the service rendered to clients, the final outcome of such a situation being that the employee feels that he is working with the principal and not for him.

The antithesis of such a careful selection of assistants is unfortunately prevalent among some of the larger firms in the larger cities. It seems quite unreasonable to expect to obtain capable men for professional accounting work on a temporary basis at the end of the year for a three-months' engagement; if they were really the kind of men we needed, we should probably be unable to hire them in these circumstances. We should certainly criticize severely any business or industry which tried to obtain the services of experienced and well educated men in such a way. I do not believe that this custom prevails in the case of smaller practices, as it is generally possible by careful planning to offset to a considerable extent the seasonal character of our work, and the severity of the end-of-the-year load of work is not so noticeable.

There are two principal ways in which the smaller firms can offset the use by most businesses of the calendar year for their accounting periods. One is by getting some of the clients to use some other period for closing their accounts when the character of their business is such that the annual closing of the accounts can conveniently be made at the end of some month other than December—to use the "natural business year" of that industry. The other way the small practitioner may relieve this condition is by arranging with clients so that work may be done on the current audits at various times through the year; after the accounts are closed the final audit work can then be completed with little delay, and the plan works to the mutual advantage of client and accountant. Another factor beyond our control, which, however, has been helpful in spreading out the work over the year, is, with accountants who take care of the tax matters of their clients, that the federal and local taxing authorities do not have any favorite

time for attack; they are likely at any time of the year to require reports or to make some claim which must at least be investigated and possibly defended. I believe that it will be found possible, if plans are carefully worked to that end, to minimize the bad effects of these peaks and valleys of our work, so that a staff of permanent employees may be kept reasonably busy throughout the year. This planning is, of course, one of the important duties of the individual in the firm who distributes the work, thus preventing delays and rendering the services that attract the goodwill of the clients.

If we regard as our principal function serving the business public in connection with the increasing complexities of its affairs, we must be prepared to render this service at whatever time conditions demand it. Whether or not we are in this desirable situation depends entirely on the ability we may have exhibited in organizing and equipping our establishments. First and most important, do we have associated with us accountants of experience and capacity, and have we exhibited confidence in their ability to the extent of placing on them all the responsibility they were willing to assume, so that they have grown with us to the point where they can help us establish and maintain that most valuable asset of any professional organization, a reputation for integrity and good work? In my opinion such a group can best be brought together from men, who, having had the advantage of a good education and preferably a college degree, have spent several years in handling the accounts of various kinds of businesses. Such men will have had practical experience which enables them to work into public accounting much more quickly than the beginner who hardly knows a charge from a credit. Again my ideas are unorthodox, because the conclusion has forced itself on me that it is neither necessary nor desirable to use men in a medium-sized accounting practice who are commonly known as "juniors." If you object that there is always a great deal of "pick-and-shovel" work on most accounting engagements, I must answer that such detailed work can be reduced materially in volume by the exercise of good judgment and knowledge gained from accounting experience; the total cost to clients on accounting engagements where "senior" accountants only have been used is generally no more and frequently less than where a great deal of the work has been done by "juniors." The quality of the work produced is always better because all parts of the engagement

have been handled by accountants who were able to discharge their responsibility satisfactorily. One of these men is in general charge and conducts the work through to the preparation of the report, with more or less frequent conferences with the principals. When the report is completed, it is submitted with the working papers for approval of a partner or other principal, whose examination of the papers is supplemented by discussion of the report with the accountant in charge. There is nothing new about this procedure; I am writing it down, however, because too frequently do we learn, through claims made against public accountants or through trials of members by organizations, that these steps of prime importance are frequently overlooked. Accounting firms, large and small, have in some cases spread themselves out to the extent that work has not been properly supervised. Such regrettable occurrences bring out one of the forceful arguments for having only experienced men as assistants.

Accounting offices of the size now under consideration do not often have occasion to work on engagements requiring the services of very many men; most of the work will be cared for by from two to four men, and with these men working separately on the different elements of the accounting records they gain a breadth of experience which enables them to handle almost any kind of a situation, subject, of course, to consultation with the principal on any matters which are unusual or on which there may be divergence of opinion among those working on the engagement. While the work is extremely varied, the accountants associated with such an office have opportunities to specialize along one line; they are general practitioners just as surely as was the old family physician, and they obtain a wide experience in examining and interpreting the accounting records of almost every type of mercantile and manufacturing business, public utilities, financial organizations and that growing group of organizations which are formed not for profit but to care for the charities and the educational and social needs of the community. In spite of the general character of the practice, however, some of the men will of necessity become more experienced and capable in handling some one or more lines of business activity.

I remarked heretofore in this paper that the position of the principal in an accounting organization in his relation to his clients and prospective clients is materially different now from what it was ten years ago. This is so not only because he has been

recognized as an important factor in the proper conduct of business affairs, but also because he has in most cases been quite ready to admit his obligation to the business community by serving it in whatever way his ability and inclination directed him. He owes to the community which has given him material success a debt which must be repaid, and evidence is at hand that public accountants are doing their share in the public work which must be done in every city. Such public service, of course, will not only make necessary the contribution of a considerable part of the time of the principals but also will call for a considerable amount of work by the organization on a basis which will little more than cover cost. Please do not think I impugn the motives of these public servants when I point out that there are some compensating advantages in the form of public mention in connection with this work. As Mr. Ruckstell stated last year in his admirable report to the Institute as president, "Certain professions, like certain kinds of business, do not openly or directly advertise, but publicity helps them. . . . Those who did no advertising, but got public mention when the quality of their work was favorably commented on by printed page or oral dissemination, would be sought out and patronized by the class of clients that could afford to pay."

Assuming that this accounting practice is now well organized with an adequate number of well educated, experienced accountants, all of the status commonly referred to as "senior," and that the business home of the organization is well planned to make it a desirable place to work, what of the other factors which will determine the degree of success of the accounting practice? Among these are the proper use and control of working papers, the development and maintenance of good office records and files, and the coöperation of the office assistants who help us to prepare the reports of our examinations in a form creditable to the organization. On the matter of working papers, the profession now has the advantage of two books, one by J. Hugh Jackson and the other by Messrs. Palmer and Bell, which cover the subject so well that I should waste your time discussing any particular feature. With all the accounting literature produced during recent years, however, I recall only one book (Kester, vol. III, pp. 423-463) dealing extensively with statistical or accounting records of a public accounting practice. This might lead us to assume that we are expected to know our own business, that we are not quite so neglectful of our affairs as the proverbial blacksmith was of his

horse. I do believe that any successful practice has of necessity provided itself with adequate records and that a description of the system with which I am most familiar would not serve any useful purpose. On the matter of office personnel, a public accountant should be interested first of all in making sure that his clients' interests are adequately served; one of the principal factors in this connection is a permanent staff of report writers, typists and proof-readers who have the ability to produce from the original rough copy of the report, which is sometimes all too original and rough, a finished document that brings our work most favorably to the attention of our client. Again it takes time and judgment and good fortune to build up such a group of workers.

In conclusion, I believe that notwithstanding loss of clients by the small accounting practice which is apparently certain to occur through mergers, consolidations and other evidences of the nationalization of business, there is still an expanding field in the profession for the small practitioner. He can and should make for himself a position in the community that is peculiarly his own; in his contacts he can make himself favorably known not only where the results of his work are to be used, but by showing his ability and experience through writing in trade publications and speaking to trade organizations and maintaining active membership and interest in the professional societies which are working for the good of the accountant and the profession.

President Hurdman: I will call upon my friend, Mr. John Flint, to lead the discussion of this admirable paper.

John Flint (New York): One is wise to be born at the proper time. If your president and I had been born twenty-five years later, and tomorrow you had been told that the junior had no place in an accountant's office, you would certainly want another president and you would not have the speaker of the afternoon.

I am not going to address myself solely to the paper that has been read. Your president has asked me to speak on any subject that would help the young accountant. I am dividing this audience into two groups: one, the group that has had an office for the last five years and is looking forward to the future; and the other, the rest of you, now before me. What I have to say to the men who have started an office is to some extent heresy and you will not believe it—many of you will take exception to it; but I request the older men here this afternoon to spend the

time while I am occupying the platform in recalling the early years they spent in the profession. They must know that nothing that I am saying is addressed to them.

There is an old English story that I knew when I was a boy, that involved the devious roads in England. They wind very much like the streets of Boston, indeed like the roads of all parts of New England, but we have short-cuts through them, and the man who wanted to save a few miles used to take the short-cuts. Such a man was in Oldham and was asking the way to Wissendon. He left the little town of Oldham in the hunting district and went along the road a short way, when he found an old man breaking stones, and he said, "My friend, can you tell me the road to Wissendon? Are there any short-cuts?"

"Why, yes," he said, after removing the pipe from his mouth, "you go up here until you come to the white barn and then you strike across the field, and then you keep on there till you come to that little road, and then you cross the stile, and then you go to—hell! my pipe's gone out."

He had lost the direction and had forgotten the thing he started with. I should say that the thing most important to the young accountant is to have a firm idea of what he is trying to do and to keep it steadily until the end.

Consider the question of working papers. There are fine working papers that are in the hands of many of you. One I have in mind is letter size, ruled in many ways. I was much impressed with it two years ago and thought I could use it, but I found that the ruling for the cents was not sufficient. A working paper that is issued by one of the publishing houses and offered for sale to the accountant is unsuitable nine times out of ten. It does not give enough room for the expression of the dollars and cents. It is wise to have working paper all of the same length for one particular audit. I invented a scheme, which I borrowed from the telephone company in Chicago, of binding working papers and I believe that it is a very wise provision. For the last ten or twelve years in our office we have bound together all the working papers for each audit, either in manila covers or in paper covers (which cost about twenty-five cents a tube) with a flexible back which turns over, a fastener to hold the pages together, and a proper label, so that you don't get the bank audit mixed up with that of the manufacturing concern. Of course, we lose our papers as you all do. But, on

the other hand, in spite of Mr. Bell's word to me that he didn't see anything in it and would not adopt it, I believe it is infinitely better to bind your working papers on the side rather than on the top, as many of the papers on the market come to you. You are in no wise wrong when you go to the expense of having your paper printed to suit your own individual case. It is a very wise expenditure of money, which I strongly recommend.

As far as possible, set up standard forms for your audit. I remember when I was working on the audit of a large company a great many years ago, a man whom some of you knew said to me, "Well, Flint, I hope you will never do it this way. When you are in charge of this audit I hope you will know what kind of figures you want the men to bring in from all the various places at which they are working. Look at the confusion that we are in today because we do not know, and the men in the field working at the various factories do not know, into what figures and what forms you are going to bring your balance-sheet and your income account."

As far as possible, it is wise to determine in your own mind the kind of balance-sheet and income account you are to prepare.

Then I have adopted another little scheme. I try to ask a question three different ways in order to find out what is in the mind of the man who is talking to me. I put the question, then I reform the question, and then I reform it once more, in the hope that I shall then get what he has in mind. I have an engagement tomorrow morning in New York to find out what a man meant when he was talking to me last week. I left his presence believing I quite understood what he meant. I am going back tomorrow morning to find out what he did mean. I didn't ask him a sufficient number of times to get through my mind what it was all about. You insult no man's intelligence when you insist on putting your questions before him so that he will disclose his mind to you.

The most valuable piece of advice I ever received was one night when I was working on an audit and I was out of my depth. When I was just about to give up and quit a friend came in, because I had telephoned to say that I didn't know what I was doing, and he said, "Well now, Flint, try it this way: prepare your balance-sheet; prepare your income account, and see that the two come to the same figure, and then spread them out before you and say, 'Well, that's what you say, is it?' I believe

you're a liar, and I'll prove it.' Then attack every figure that is there, in the hope that by good luck and divine providence you will eventually come within shouting distance of the truth."

There is another word of warning that I must add. Suppose you are a man forty years of age and have had your office running five years, and have had an extensive acquaintance with accountants. You need a man. Be sure to steer clear of the cocksure man. I have five of them in mind at this moment.

I remember talking to an accountant once who said, "I can't do a thing with these men. You ask them to do a thing one way and each one says, 'He doesn't know what he's talking about. I'll do it my own way.'" Such men refuse to have any supervision; they insist that their own experience far exceeds that of the man who is employing them; they feel that the jobs that you have entrusted to them are entirely too small for their great capacity, and they quarrel with employers everywhere. There is no servant that serves them and gives them any pleasure. The hotel is good enough for you and yet it isn't good enough for them. They are the cause of constant friction and complaint. I made up my mind years ago that I didn't want any of them. Give me an alert, bright, ambitious man and I will swap him for all the other kind that I have ever seen.

Be sure to praise your staff. Don't be afraid to believe that the men can feel the value of praise. Let them see the sparkle in your eye, as you speak of the good work they have done, and let them know that it was their assistance that brought you to the successful conclusion. You and I have known men who thought there was no glory in an office except the name that was printed on the sign. I disagree with them. I believe that there is glory enough to go around and that every man who works on a job conscientiously and faithfully and willingly and pleasantly is entitled to his meed of praise. Take an interest in the men who are associated with you and let them feel that you are part of them and they are part of you.

Now as to yourself and your staff, what will you do? You have opened an office. You have been running it for five years. You have the acquaintance of a few people. Let every one of you, as far as he can, cultivate his personality.

There is a subject that I hope the schools will take up one of these fine days, when they get to it, and that is the use of the human voice. Suppose you find yourself on the witness stand

testifying in a matter—Are you afraid of the sound of your own voice? Can you get over that fear? Can you cultivate a voice so that you can speak in a reasonably large assembly and be heard and understood? Have you the nerve to open your mouth and let yourself be heard and let your mistakes be criticized? Some of you don't understand it and think that I am stressing something of small importance, but I think ability to speak in public is one of the greatest assets in the world—any small measure of success that has come to me has been due partly to the fact that I have learned not to be afraid of the sound of my own voice. Get a job umpiring a baseball team! Join a dramatic society. Go into the Sunday-school and teach a class. Do anything that makes you talk on your feet and you will find that you have one of the best assets that can come to you.

Then cultivate a sense of humor. Don't take yourselves too seriously. If you are dealing with a lawyer, he is delighted to see a sparkle of humor in you. If you have a client who is grouchy and difficult to handle, show him a spark of humor and it will light many a dark place. It is a splendid thing to have. Some of us have a sense of humor and perhaps some of our friends wish that we hadn't. It is not always as good as it sounds, but it helps to cheer many a lonely night.

I remember we were working about two o'clock one night on an audit of a metropolitan railroad, when one of the men looked up and said, "Oh, I wish we had a little fruit!" "Well," said another, "I have a lemon here, if that will help you."

It is a wonderful help to see the funny side of things.

One should cultivate the critical sense—never be satisfied with anything. It can always be done better. Do not disguise that truth nor allow yourself to be persuaded that you have done it as well as it could be done.

One other thing: recognize the value of a critic. I am sure that if any of you young men are confronted with a problem and will put it down on paper you can get criticism on it from any accountant in the United States.

Let me give you one bit of history. A man came into the office about twenty years ago, and I engaged him at twenty dollars a week. (He is now getting fifteen thousand a year.) I was in Chicago on a case against a telephone company. I had five or six men working for me; I was out of my depth, ready to

sink, as I thought, and I telegraphed for this man to come from New York.

He arrived, and I said, "George, I have sent for you because I am in desperate need. I need a critic. I need a man who will stand by me and do nothing but say, 'Bosh! You're making a fool of yourself.' I want a man who will stop me when my mind begins to wander from the straight path."

He stood by me and the engagement was finished with at least ordinary satisfaction.

I believe that is a worth-while piece of advice.

Some of you gentlemen are thinking of retiring from the profession. The years are coming to you. Let me advise you that there is one field open to you of which you have not yet taken advantage, and that is writing of your experiences. They will be more entertaining than many stories of adventure; they may charm the world; they may fill your pockets with gold and give you greater reputation.

We were on a bank audit a year or two ago and were discussing the bad loans in the bank, when we came to a loan of \$420,000 that looked fishy to me and my partner. We took it to the committee with the other loans that we had to discuss, and the president said, "Yes, that is a bad loan. It's easy for any man to rob a bank. All he has to do is to come into a bank, make a deposit, behave himself for three years as a decent citizen, and go in and out of the bank, and he can put over a deal like this."

The risks run by a bank are no less than those which we, as public accountants, run. They surround us. If you asked me to list them, I should have to keep you here all night, and even then they wouldn't all be listed. There are as many as the rocks between New York and Portland, Maine.

Each of us has a few pet notions and fears. For example, a decimal point in quantities in an inventory scares me to death. Take, for instance, coal—you find an inventory value of 20,200.2 tons. Can anyone tell to one fifth of a ton what the quantity is? It is probably a surveyor's estimate, reduced to cubic feet and calculated and expressed by him in tons, to one decimal point. If the decimal point be carried into the final inventory the accountant runs into danger. Once in our experience the decimal was carried into several figures. Twice serious errors have been discovered, both due to errors by typewriting-machine

operators who omitted the decimal point and stated the decimal quantities as full units. In one case this led to an error of over \$4,000,000.

I know of a case, in an inventory of automobile-top material running into about 60,000 or 70,000 yards, where the figure was carried to one decimal. The young woman forgot to put the decimal point on the sheet and it reduced that one item, running up to millions of dollars, by \$540,000. Therefore, I warn you against it. I think it is the most dangerous thing there may be in an ordinary inventory.

Many years ago, a member of this Institute—a very fine accountant—engaged me at \$6.00 a day. We went to a certain town, which we may call Baltimore (because Baltimore was not the town), to audit a factory. On the balance-sheet of that factory we found notes receivable, \$440,000; accounts receivable, \$80,000. My employer took the notes receivable and examined them, and he said, "None of them is past due; they all look good. You can work on the accounts receivable."

I worked one morning on the accounts receivable and I was impressed with the smallness of the sales. At lunch I said: "I don't believe those notes are worth a cent."

He said, "Why, what do you mean?"

I said, "In my judgment the people who signed these notes have not bought enough goods in the last three years to indicate that these notes are for any purchases made during the last ten years. Will you give me an opportunity to take that ledger and find out the amount of the sales to these note-givers during three years?"

He said, "Yes, it won't take you long, will it?"

I said, "About a couple of hours."

I handed him the sheet after about two or three hours and he said, "Good heavens, I never thought such a thing was possible!"

It showed that many goods had been sold from the factory to people who hadn't paid their notes for many years. They were all rotten. Customers would buy \$1,000 worth of goods a year when they owed \$10,000 worth of notes. A ledger that ran for three or four years, which I was examining, gave no indication that these people did any very large amount of business with the concern.

That is one of the things, young accountants, you deal with every day—the study of notes and accounts receivable.

A man went up to Syracuse to a factory and examined the accounts receivable. He was led to think there was a nigger in the woodpile because of the manner in which the amounts were stated on the final total. A prominent merchant in New York owed \$6,600; another man owed \$5,000; another man owed \$8,000. The accountant called for the invoice book and found an invoice that supported the total in the ledger. Then he called for the shipping tickets but they could not be found. All the entries were fraudulent. The concern was hopelessly bankrupt.

We have an office boy in our place, and if it were proper I would nominate him for president of this organization in the year 1965. He hasn't been to the Harvard school of business administration, but we shall teach him more in four years than he would ever learn in any college in the United States, and we shall pay him something while he is learning it. He will go to school at night and get on. He is the bright, alert, ambitious boy who will make good. The pleasure that you and I have had in other years, in bringing up young men and seeing them now our partners, is a joy that nobody can take away.

President Hurdman: I will call upon Mr. William D. Cranstoun to talk to us on this subject.

William D. Cranstoun (New York): Mr. President and Gentlemen of the Convention: When it was first suggested that I contribute a few thoughts to the discussion which Mr. Olive so capably opened, I thought that I would prepare a long paper which, through its soporific qualities, would make you at least comfortable, if I couldn't make you happy. But my better nature triumphed and I jotted down a few notes which will neither make you comfortable nor happy.

Though the subject for discussion is of prime importance to all practising accountants, it is one which I approach with diffidence in the presence of so experienced and well informed a group.

I believe that little which can be said will prove of serious interest to the representatives of the larger organizations. The very size of these firms and their diversified practice have permitted them to detail men of broad experience to study and adopt the best ideas and methods for the proper conduct of their own business, and such study has in most cases resulted in the perfection of an organization and procedure suitable to their requirements. But many small firms, and especially accountants starting an independent practice, through stress of other demands on their

time, have failed consciously to evolve and adopt a definite plan for conducting a growing practice in the most efficient manner.

In order to employ our time profitably my suggestions, then, should be directed only to the problems of the smaller firms or of individual practitioners.

Let us first consider in what respect the problems confronting the smaller practitioner differ from those which engage the attention of the larger firms.

Broadly speaking, the differences lie in the means available for increasing one's practice and in the difficulties attendant on the production and supervision of professional work of a high standard. The advantage enjoyed by a larger firm through its widespread reputation and the increase of its practice through simple accretion is not enjoyed by the small practitioner, or at least not in the same degree.

I do not propose to offer any formula for increasing one's new practice, not having the requisite wisdom, and also for the further reason that this constitutes largely an individual problem for each accountant, varying in each locality. Many will advance the thought that this is the only real difficulty and that with its solution other troubles will vanish. I am not sympathetic with this view and believe that furnishing a distinctive service of high standard is not only necessary for its own sake but must be the determining factor in the growth of the smaller accountant's practice. There is still a grain of truth in the "better-mouse-trap, better-sales" idea.

For that reason let us consider two subjects which should occupy the attention of an accountant with a small practice in planning for an orderly growth of his practice:

1. Activities of the principal or partners
2. Staff development and utilization

One of the most serious difficulties for an accountant engaged in a small practice rests in the extreme demands on his time. He must attend to administrative duties, supervise the work of his assistants, revise and write reports and, in whatever time is left, confer with clients and actually work on engagements. As a consequence it is only natural that some of these activities receive less than their merited attention and only the most urgent matters are settled promptly. Such a condition must result in disorgan-

ization, eventually affect relations with clients and impair the quality of the professional service.

Therefore, it is advisable that such an accountant, in attempting to better his organization, should begin at the top because, after all, in professional organizations the usual order is reversed and the business rests on its head. The question becomes one of personal efficiency and a definite budgeting of time.

It is usually practicable, after a careful survey of the requirements, to apportion the working hours fairly among the various duties of the practitioner. It involves tactful education of the client as to the necessities of the situation, which is not impossible, however, as such an arrangement should be of benefit and convenience to him. The value of financial budgets has been amply proved in the control and administration of large affairs. Is it not clear, then, that time, of which the accountant has so little, should be efficiently controlled and expended, so far as possible, on a predetermined plan?

A physician usually apportions his time so that there are specific periods for office consultations, home visits and hospital attendance, subject, of course, to special emergencies. In a similar manner, the accountant may arrange his duties so that a definite part of his day is appropriated for office work, during which his clients may always communicate with him and staff members may arrange for conferences. This would leave a clear period for arranging outside activities and substitute order in place of a haphazard use of time.

If there are two or more partners the problem is simpler, as there is the possibility of a division of duties on a functional basis. But even in the case of the individual practitioner, an effort should be made not to become too deeply immersed in the mere detail work of his professional activities.

In a small city where several practising accountants have attempted to establish themselves, with no striking success, another man with no better equipment or training has achieved substantial progress in a relatively short time. He has done little actual work on his various engagements but has adequately supervised the activities of his small staff. However, he has reserved a part of his time for closer association with his clients in considering their business and financial problems and for extra-professional activities. His value to clients has increased and their number has grown. (I should not fail to mention the improvement of his

golf score as well.) The course followed by this man permits a clear vision of his organization and his practice, instead of the short-sighted and distorted view to which the man floundering in the morass of daily necessities is limited.

In discussing the handicaps under which the accountant with the small practice operates, his real opportunities and advantages should not be overlooked. He is in much the same situation as a farmer who, with only a small acreage available, may, by a judicious choice of crops and intensive cultivation, realize a fair return. I might carry the figure further and mention the chance that neighboring fields, less intelligently operated, may fall into the hands of the abler cultivator. The golden opportunity for the accountant with a limited field lies, then, in intensive cultivation of that field.

Because his clients are apt to represent small enterprises without the services of skilled advisers on financial and related policies within their own organizations, the accountant may find his opportunity. His close contact with the client enables him to gain both a clear understanding of the client's view and a comprehensive knowledge of his problems. Under these conditions his counsel may prove invaluable. The service thus rendered may become distinctive, and reports to clients may represent something very different from the popular conception of an accountant's report.

The kind of service which I have suggested calls for a breadth of vision and experience which may be difficult to acquire in a restricted field. How far this handicap may be compensated by qualities of mind and character I am not prepared to state, but surely where the opportunity is present the earnest and progressive accountant will not fail to fit himself for his task.

Having thus somewhat briefly covered the subject of self-organization by the principal, let us consider for a few moments the equally urgent requirement of staff development. This is a problem whose difficulties have been recognized by the whole profession and organized efforts are being made to interest promising young men in the possibilities in our sphere of endeavor.

Certain considerations favor the absorption of the best material by the larger firms. These lie in the apparent prospect of more effectual training and wider acquaintance in big business, together with the allurements of greater future compensation by reason of these advantages.

On the other hand, the accountant with a limited practice has difficulty in obtaining the best staff material and a further difficulty in retaining good men because of the limited opportunity for advancement. Not having any large engagements justifying an attractive compensation for assistants of promise, he is forced to lose them through sheer inability to make use of their potentialities.

These conditions can not be changed by an act of the will and can be met only in a partly satisfactory manner. Much can be effected, however, through the development of a fine organization spirit and by utilizing that spirit in the production of professional work of a high standard and distinctive type, thereby opening a vista of real progress to each staff accountant.

There are special advantages to the members of a small staff which may be stressed, such as a greater facility for exchange of ideas with each other and with their principals, the consequent mutual progress in professional knowledge and the happiness of occupying a recognized and definite place in an organization, in contrast to the less specific recognition of the individual employee in any large business or professional office.

With regard to compensation, the most that can be done is to implant the assurance in the mind of each staff member that he will ultimately receive the most that can be paid him for the services rendered in view of the fees which will be earned by the firm. If this assurance is coupled with careful training and supervision to permit progress of the staff members as well as the profit of the principal, much will have been done to reduce the turnover of staff and the loss of valuable assistants.

It seems to me that the assurance as to compensation must be founded on something other than vague promises. Rather, it must rest on a definitely recognized principle. No precise formula can be laid down to measure the value of a man's efforts, experience and ability, for they do not or should not remain constant. But if a sound basis is adopted this can be supplemented by the continued observation of a practitioner always in close contact with a small staff.

It is evident that there is a definite limit to salary possibility in the circumstances which we are considering and that a further contingent compensation should be offered which, for lack of a more convenient term, I shall refer to as a bonus. The essential feature of the bonus is that it must be really earned by the re-

cient and the method of its determination must preclude the possibility of its being considered an automatic addition to salary.

The first step in establishing a plan of compensation is to determine the maximum basic annual salary which may be paid to each man. This must have a direct relation to the amount which may be charged for his services and should represent a fixed percentage of the per-diem rate for his services, multiplied by a theoretical number of productive days in his working year.

I can not suggest a percentage rate suitable in all cases, because the relation between productive salaries and overhead expenses affects it so materially. Neither can I offer a theoretical number of working days with any assurance that it will apply fairly to every firm. The variable factors effective here are the differing number of holidays in different places, the differences in recognition of half holidays and vacation periods, and the wide difference in experience as to other unchargeable time.

In certain cases the straight salary might be parity based on two factors in addition to those mentioned in the preceding remarks. Ability to supervise and coördinate the activities of assistants or a thorough, specialized knowledge of the accounting of a particular business or industry might justify an addition to the salary rate. This will rarely occur among the smaller organizations, however, because of the lack of demand for such accomplishments.

The maximum salary having been established, it is then the responsibility of the principal to see that the staff member attains the maximum at a pace providing the greatest incentive for continuous effort and substantial achievements. Transfer from one per-diem-rate classification to a higher one should receive prompt recognition.

The supplementary compensation or bonus should represent the values of services rendered by the staff member only susceptible to appraisal after completion and for that reason not included in salary. To my mind the bonus should include:

1. Recognition of chargeable time substantially in excess of the theoretical number of days used in establishing salaries.
2. Recognition of services of special value resulting in benefit to the firm.
3. A share of unusual earnings realized by reason of united efforts of the whole organization.

Extra compensation thus apportioned furnishes incentive for continuous effort by making that effort necessary for enjoyment of

the maximum financial return. The plan must be operated with complete fairness to win the confidence of each participant and implant the assurance that recognition of service is certain. The tendency then is to create a community of interest between staff and principal and to effect an organization spirit that will prove a centripetal force offsetting the urge of other opportunities.

The suggested plan of compensation is applicable only to a small or medium-sized practice in which the number of assistants is fairly constant and where no direct payment is made for overtime. In larger organizations where temporary additions to the staff are relatively large, specific recognition of overtime either by monetary compensation or special privileges may be the best means to ensure loyal cooperation in periods of emergency.

Having provided a staff fairly trained and bound to the organization by the bond of intelligent self interest, the principal in a small accounting office, working in close contact with his staff, will have sufficient knowledge of the experience and capacity of each member to use his services in the most suitable way. But efficient control requires planning in advance for the best use of the time of staff and principal.

The basis for such planning may be a record of engagements showing the approximate time of each month when each client's demand occurs. With the use of this record monthly schedules of proposed staff activities should be prepared, listing the accountants in the first column and spreading the working days of the month across the top. Opposite each name the estimated time required for each engagement should be indicated by spreading the client's name over the requisite date spaces. This schedule can be made to give a comprehensive picture of the man requirements for a considerable period. The schedule must be sufficiently flexible to allow emergency engagements and to permit the absorption of any inaccuracies in the estimate of time required on the various engagements.

In closing, I venture to suggest that if we study our problems objectively, approaching them as we attack our clients' difficulties, they will be more easily solved. If the client feels assured that there is a well equipped, smoothly functioning organization back of the services offered he will the more readily avail himself of those services.

I have not attempted to discuss the organization and conduct of an accounting practice exhaustively, but merely offer

these suggestions for the purpose of stimulating thought on certain phases wherein lie the success or failure of our professional activities.

President Hurdman: The meeting is now open for discussion. It seems to me that following the wealth of knowledge that has been imparted to us by these three gentlemen, there should be questions to be asked and information offered. We shall be glad to have our guests participate in this discussion, believing that out of their knowledge and experience we shall receive much that will be of value to us all.

Stanley G. H. Fitch (Massachusetts): There is one question which has been in my mind, and I think probably in the minds of many others. If Mr. Olive finds no use for junior accountants how does he propose to bring up a new supply from year to year? Will he leave that to the larger firms, or was he speaking of the problem from one individual and specialized viewpoint?

Mr. Olive: I recognize that in large practices it is, of course, necessary to use juniors, but in a smaller practice I think it possible to dispense with them, and I know that it has proved practicable in my case. By discontinuing the use of juniors and getting men with from three to five or six years' experience in actual accounting work, preferably in work of a varied character, I have been able to assimilate them into the staff quickly. I recognize, of course, that such a practice can not be followed in the larger accounting firms.

H. G. Humphreys (Oklahoma): Some of the large concerns have personnel departments—I am now speaking of commercial concerns—and they approach this problem in a way rather different from that of the profession of accounting. It occurs to me that it may be of some interest to explain how they do it. First, they demand an application, and if that application is favorably regarded it becomes the subject of a little personal analysis by two or three people. Then, if the applicant appears to be desirable and the men who have interviewed the applicant approve his personality, he is employed.

I come from the middle west and I can see the need of registering young juniors. The various societies of accountants could have a kind of employment agency, which would take applications from young people who desired to enter accountancy. Very often, of course, you find square pegs in round holes, and that sort of thing should be eliminated. We feel the need of some organ-

ized effort in the west, so that when a concern needs junior assistants it can be sure of getting good men.

Another thing we need in the west, which was mentioned by Mr. Olive and I think will eventually be done, is to send capable speakers to address the various chambers of commerce and tell them for what the American Institute of Accountants stands. I think that such addresses also would encourage adoption of the plan of auditing accounts during the year, so that by November 30th one will be in a position practically to determine the position of the accounts at December 31st. I know that it can be done in a great many cases. In that way the client can call for and obtain advice on budgets and financing during the various times between peaks of activity.

Most of the large industrial concerns in the west are rather well equipped so far as their accounting organizations are concerned. They can make a representation, present trial balances and show how the trial balance has been obtained. As a matter of fact, nearly all the oil companies have money invested in every department of related activity—producing, pipeline, casing-in plants, etc. All the marketing facilities are divided into units, and each unit has a definitive number, and each investment has a definitive number. Then they have the regular expense accounts that we all know about, and each has a definitive number. As a matter of fact, they are doing all this on a tabulating system. This shows that the thing is so complete as an internal system that it can be put upon a mechanical basis.

Now, as to the working papers, I like Mr. Flint's idea. There is too much of a tendency to follow the legal size. I am in favor of 11 x 8, 11 x 8½, 11 x 17, and so on, and of binding the pages on the side, having in mind that these papers will be filed for ready reference.

President Hurdman: Mr. Keens, have you anything to offer on this subject?

Thomas Keens (England): Mr. Chairman, you have been good enough to say that your guests might take part in this discussion and I think, therefore, I might perhaps be able to contribute just a little from the point of view of Great Britain. In the first place, of course, I don't know what you consider a large firm or a small firm in the United States. I learned today for the first time that a friend's observation at New York has some basis in fact: that there must be some

small firms in America and there must be some small private practitioners.

I suppose it would be fair to say that my own firm is somewhere in the middle; it is neither very large nor particularly small, with a central office in London and ten provincial branches. I have been extremely interested in what I have heard at this meeting, but it seems to me that there are things that you have discussed upon which it would be grossly impertinent for me to attempt to offer you any advice. For instance, I have no more idea than the man in the moon how to suggest that you might get practice in America. All I know is that you all seem to get plenty and you seem to thrive on it.

If I describe to you a little of our own organization it may perhaps throw some light on the subject, although I admit quite frankly that our circumstances are perhaps so different that it may be of no value at all. You will be the best judges of that.

In the first place, I am the founder of the firm and the senior partner, and there are no other men in the firm except my two sons. They are really no exceptions because they have been through our office as clerks, becoming clerks with managing responsibility and being invited to become members of the firm. We have found that to be the best way to build up the organization. In addition, we have our full complement of clerks, but our firm has never taken a premium from any clerk. We have always reserved articles to give to promising youths, in order that they may become qualified. Naturally, we haven't been able to retain in the service of the firm all the men whom we should have desired to retain, notwithstanding steady and continuous growth.

I am, of course, astounded to hear that you can do without junior clerks. From our point of view we can say that we have never yet found men who are the equal of the men who have begun with us, been trained by us and continued with us. We therefore make it a practice to look out for the best type of boy, to get him to come into the office, immediately finding out his standard, and to get him to go under articles, which means that he has a five-year period of training with the principals, being paid a salary all that time. He is encouraged necessarily, as part of the bargain, to take the examinations and is given the necessary time off for coaching and for the periods of his examinations as well as for the preparatory periods of intensive training. We find by that means that we get the best type of lad, who starts with us,

becomes a managing clerk, and may ultimately become a partner. Then, with regard to managing clerks and remuneration, broadly speaking, our method of organization is this: we work as far as possible on a squad system; that is to say, a qualified senior or at any rate a highly experienced senior has under him two intermediates and possibly three or four juniors. They split the work up between them, the senior clerk being responsible for the work of all the others and reporting to the principals from time to time how each man is progressing and the quality of his work, in order to see how he may be advanced. With regard to remuneration, we frankly pay bonuses, on a scheme calculated by the partners. All the men except clerks definitely share in the profits. They run their own offices; the scale of expenses is settled by the principals, and the men get a definite share of the profits of each of the offices, exactly the same as if they were partners.

With regard to organization, I don't know that I understand exactly the meaning of the term "staff-room", to which Mr. Olive called attention. In our offices, of course, we have what is known as a general room, that is, the cashier's department and the room where the records of the office are kept—not a filing room but for superintendence of the filing room. A good deal of the labor is done by junior men or women, supervised as they can only be by somebody in a fairly large room. I don't know exactly to what extent account-keeping for trust purposes, insolvency business, liquidations, receiverships and things of that description enters into your practice, but it is rarely the case in one of our provincial offices that the banking does not have to be done in a large number of accounts, let us say about forty or fifty opened at one time, and obviously this work itself demands a considerable amount of clerical assistance. For this purpose there is one cashier and several assistants. I may say that under the English bankruptcy law money retained in the custody of the trustee for a period exceeding ten days renders him liable to have his remuneration totally disallowed, in addition to the penalty of interest. The consequence, therefore, is that it becomes absolutely necessary that every bit of trust cash passing through the office shall be cleared at least once a week. We have a very simple rule: at one o'clock on Saturday, closing time, there must not be one penny of money in the office belonging to anybody else, so that obviously we escape a possible default on the ten-day limit. That is work, in our office at any rate, which we should call work for the staff-room, but

probably in America it may mean something entirely different. Hence I express no opinion on it.

With regard to an office filing system, I take it we have all found our way through a number of systems to get the one that suits us best. Undoubtedly the flat filing systems are superseding all other systems, and of course in any fairly large office there must be uniformity of filing; otherwise you would never be able to find any papers. There is only one disadvantage that I can see in the perfection of filing systems, namely, if one does lose a paper, the difficulties in finding it have been multiplied ten or twenty fold. The better the filing system, the more possible places there are to look if something becomes misplaced, and you may have to turn the office upside down to find some item which you want at once.

We all have to be careful even now not to over-systematize ourselves. I know it is heresy to say anything of the sort, but I am reminded that in England a business organizer called on a man and got him to organize his business on lines which he thought were correct. After a time he came back and said, "How is the system working?"

"Admirably, splendidly!"

Then he asked, "How is business?"

He said "Business? We haven't got time to look after business. We only have got time to look after your system."

Obviously each one of you will come to the system which you have found in practice to be the ideal one for your own practice, and you will let the theorists alone and use your own judgment, for which you will be extremely well off.

President Hurdman: I think Mr. Olive might explain to Mr. Keens what a staff-room is.

Mr. Olive: The staff-room, Mr. Keens, is the room in which men who have not achieved the dignity of full-fledged seniors congregate to finish their work or to spend their time when they are not on productive work.

Frederick B. Andrews (Illinois): The remarks of Mr. Olive about getting away from the use of juniors found a sympathetic chord in my mind, and I think probably in the minds of most individual practitioners, because our engagements do not usually involve work that calls for the employment of a large number of juniors on routine matters. On the other hand, I have been most unwilling—and increasingly so—to entrust the work that I have to men, regardless of the extent of the experience they may

have had elsewhere, with whose methods and abilities I have not had an opportunity to become acquainted. I, therefore, have found it very satisfactory to employ young men just out of college, who have not had any practical experience but ~~who~~ have been thoroughly grounded in accountancy through their school training.

I have a few engagements, which have come to me not only without my seeking them but rather in spite of my attempt to avoid them, that involve account-keeping. They may or may not be of the sort to which Mr. Keens has referred, but by employing young men on work of that character and gradually permitting them to assist on outside work, where they are under close supervision, I find an effective as well as a simple way of developing a man within a year or two into a very useful subordinate—I will not say a junior. I think that more attention might be devoted by members of the Institute to its bureau for placements, because it is the supplying of men of that calibre which constitutes the function of that bureau.

Peter S. Barton (Illinois): I was very much interested in Mr. Olive's paper which, however, I think was predicated upon what I might call an ideal situation, that is, a practice that is distributed evenly with the same staff fairly well occupied throughout the year.

I would be very much interested, however, if some one would outline a plan of staff organization for a business with twice as much work during the months of January and February, for instance, as in any other two months in the year, a situation with which most of us are familiar.

Arthur Collins (England): There is one feature of my experience I have not heard discussed this afternoon, which I think is worth a moment's care and consideration. I refer to the clean desk for the principal. I don't believe in these days either of specialization in some particular subject (which is my own peculiar trade) or of mass businesses, of which American accountants know more than anybody else in the world, a man can do his duty to his clients, either as a specialist or as a man in a big field of affairs, unless he reduces delegation to a very fine art. I have been impressed at various times in my business career with the fact that the biggest men I have ever met have been those who have known least about the details of their businesses, be they accountants or in any other field of work, and I believe from

my knowledge of such men that the more they direct affairs from the widest possible range and the further they get away from the details of their own business, the better business men they are. I always look around a man's office, if I am making a call upon him, to see whether his desk is loaded with dusty, moldy papers; whether a big batch of files is there awaiting his personal attention, and whether, speaking generally, he is going to say, "Well, I am very, very busy. I am sorry I can't give you more than a minute because I have all these papers on my desk requiring attention." If that is so, I generally—maybe wrongly—form the conclusion either that his business is a bit too big for him or that he is trying to attend to too much detail himself. I am a great advocate of a clean desk for the principal, believing in delegation carried to such a point that only the final decision, practically, comes into the hands of the principal.

That, I believe, is what Mr. Flint referred to in giving his remarkable and valuable contributions from his experience. It is true that if everybody combined the qualities which Mr. Flint has outlined we should all be enjoying large practices and have big incomes; but at the same time I have never heard a more common-sense opinion concerning the qualifications that a successful man, particularly the accountant, ought to possess, than those which Mr. Flint gave us.

If there were time I should like to dwell upon the great value (which he himself stressed) of the use of the voice. A deal of my own time is occupied in giving evidence before various legal tribunals in which it is absolutely necessary that one shall be able to put into terms understood by the layman the most technical subjects of accounting and finance, and in that the use of the voice is not only a tremendous asset but the use of a sense of humor is even more valuable. My experience leads me to make two comments upon that particular field of our work.

In the first place, if we are dealing with figures for the layman, for heaven's sake let us forget the cents, and forget even the odd numbers of dollars. If you are dealing with millions, get into the minds of the people with whom you are dealing who are not accountants the millions figure and leave the thousands, and also the cents to take care of themselves. Then put into non-technical terms any accounting matters which are of a technical nature. I assert that anybody who submits his case to you, either as a specialist or as a practitioner in a big way, takes for granted your

technical qualifications. If he weren't satisfied that you were a first-class accountant, he would not have come to you at all. What he wants is that you as an accountant make your recommendations to him as a business man in terms which he can understand, and if you can give him some homely simile then I think nine times out of ten you get closer to him than if you express yourself in peculiar technical accounting terms. And, as I am far more accustomed to referring to subjects of this kind in a spirit of levity than in one of responsibility, I will conclude by telling a story.

There were three partners in business in the cotton trade in Manchester, all old men and all having made a big business by their efforts. One was in charge of production, another was in charge of sales, and the third, and probably the stingiest of the lot, was in charge of the overhead, including the finance and accounts. The other gentleman in this story was one of those pre-war canvassers for loose-leaf ledgers and business systems, who in England always considered it a part of his stock-in-trade to trot around to see his potential clients in a frock-coat and silk hat. Now, in Manchester, as in America, a frock-coat and silk hat are not altogether a sign of respectability but more a subject for humor. By some chance this canvasser of loose-leaf ledgers found himself in the office of the old gentleman who was in charge of the overhead of the business—a thing which had never been known before. The old man thought his visitor was a good customer, particularly as he was dressed up in a frock-coat and silk hat, and offered him a cigar. To his horror, he discovered in a few minutes that this young fellow was touting loose-leaf books. He, for all of his fifty business years, had been wedded to the old-fashioned idea of stitched books and here was a touter in his own room touting for the sale of loose-leaf books! The old man had been an athlete in his time, and, unable to contain himself any longer, he rushed over from his chair to the chair in which the touter was sitting, gave him a good punching and threw him down the first flight of stairs. Then he sat down at his desk with a great deal of satisfaction.

A few minutes later the young man came walking back into his room, pushing the nap of his silk hat down into place, and said, "And now, sir, joking apart, what about these loose-leaf ledgers?"

I need not say that he got the order, and I am sure all of you who have had business experience will agree that very often

there is nothing truer than the saying in the Bible that "A soft answer turneth away wrath." It is equally true in business and in other affairs.

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*At this point discussion was adjourned to the following day.
On Wednesday, September 18, 1929, discussion was resumed.*

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President Hurdman: If it meets with your approval, we shall now take up the discussion of the internal affairs of an accountant's office. Some of the members who have had large experience should certainly be able to help the younger firms in improving their practice. I do not believe that there is anything that is too simple or too small to be discussed here. Who knows but that some simple thing we have worked out in our own practices may be of help to some of our fellow members? Yesterday in the discussion one of the older members of the Institute merely made the suggestion that his office had been very careful in keeping track of the number of reports that were made, to insure that no report put out by that office would get into the hands of any unauthorized person. That seems like a very simple thing and yet it is possible that some of the smaller firms have not realized the importance of protecting reports.

Lewis Wintermute (Ohio): What you have just mentioned brings to my mind a simple expedient that is followed in our office. We retain one carbon copy of every report identical with that given to the client, and on the flyleaf of the copy retained is a memorandum in the handwriting of the man who delivered the report stating when and where and to whom he delivered it, and how many copies there were. In that way we have a permanent record showing what happened.

Edward J. Dillon (Missouri): Yesterday we heard from Mr. Olive about his method of recruiting men. He told us about taking men who had been out in the business world two or three years. I have an idea that the problems of accountancy in the future are going to require the most highly trained minds, and it seems to me that we ought to go to the colleges for most of our men. I have found that if you go to a college to get a man, it is best to go in January and select a man who is going to be graduated in June. Most of the large firms follow that plan and thereby get the best men.

I heard an officer of a great corporation say that the executive of the future had to be a young man and that the college-trained men in his organization would know as much at thirty-five as untrained men might know at forty-five.

Of course, the situation differs in every locality, but for my little office if I am to employ two or three men I go to college in January and meet the men and select them not only on account of their grades but also for personality, and then take them into my office, probably in June. At times I want four or five extra typists, so for the first year I keep the boys in the office most of the time assisting in typing reports. I find that through that method they get a fair knowledge of the profession.

From now on I believe the profession will need the highest type of trained minds, and I believe when you get the college graduate who has made a good record, whose personality is of the kind we need in the profession, who has belonged to different organizations, you have excellent material.

Charles Weissinger (Pennsylvania): Do I understand that you take the young man in and have him typewrite in the office?

Mr. Dillon: I try to get a man who can use a typewriter and for the first year I keep him in the office, typing reports.

Mr. Weissinger: Do you find that men refuse to do that?

Mr. Dillon: I show them that they are getting a useful training by typing reports. I think, too, that what the men think about it depends upon how you treat them. I have no trouble with them at all.

I have been in business for about eighteen years. I have never let a man go for lack of work, and I have never engaged an extra man during the season. I pay for overtime and I am liberal with vacations. Of course, during the first three months of the year the men have to work pretty hard, but I never have any trouble with them. I have gone through seven years with barely two months of lost time in that period.

Carl H. Nau (Ohio): Perhaps it might be interesting to know of a practice in Ohio, inaugurated first, I think, by the Ohio state university, and adopted almost at the same time by what we know as Ohio University, as a part of the plan of instruction in their schools of commerce, accounts and finance. During the semester preceding the last semester of the course, the student serves outside the college. The dean of the school, or somebody associated with the school, usually visits several of the larger

cities in Ohio and there arranges, perhaps some five or six months in advance, that from late in December, that is, after the Christmas holidays begin or early in January, until May, firms of accountants take on temporarily for that period one or more of these young men, the implied understanding being that during that time the student gets some little practical experience and that it affords an opportunity for the accountants to become acquainted with these young men.

In my own firm the result of that experiment has been that every one of the young men we had the good fortune to obtain in that way has come back to the firm, after finishing the college course, and worked for us. There may be possibly one exception to that. That is one reason why we have not availed ourselves so much of the services of the placements bureau, although we did take one young man from that source, and that experience has also been very satisfactory. Under the Ohio plan you have an opportunity to study the young men; you become acquainted with them; you make up your mind whether they are likely to be the kind you want in your organization or not. You take the responsibility only for a four- or five-months' engagement, during which you can determine whether or not you care to make the engagement permanent. There is no contractual obligation, but just an understanding that you are going to be pretty decent about it, and there must be a very persuasive reason why you would let a man go, whether you had anything for him to do or not, during the four months for which you had accepted him.

Mr. Fitch: May I ask Mr. Nau if he takes on these college men immediately after graduation in June or July, or in the fall? The bureau for placements requires us to engage the men in what is usually the dull season.

Mr. Nau: It is my opinion that usually the young man, after he has been graduated from college, would like to have a few months of rest from hard work and to come to us in November or December. Some of the students are graduated in midyear and some in the winter season.

President Hurdman: I think that I ought to correct Mr. Fitch. I do not understand that there is any obligation to take these men from the bureau for placements immediately upon graduation. You can select the time when they are to begin. The men who have come into our office have begun in September or October.

This discussion is wide open, gentlemen. I think that the trend which it has taken is helpful, but I don't want to get you too far away from practical things. For instance, I think that some of us would like to know what method firms adopt in keeping accounts in the office. Do you keep accounts on an accrual basis? Do you keep them on a cash basis? How do you send out your bills? Do you bill your clients monthly? Do you wait until your work has been completed and then send bills? There are many things we can discuss today which would be of great help to the smaller firms. On the other hand a small firm may have something that is good and take it for granted that it is used by the large firm, but let us hear about it.

Mr. Andrews: If I may revert for a moment to the question put to Mr. Dillon by Mr. Weissinger, I would like to mention the fact that my first acquaintance with public accountancy followed the position of office boy with one of our large firms. Until after I had accepted the position and entered upon my duties I had no conception of what a public accountant was nor any knowledge of the fact that there was such a thing. No single item in my experience has proved of greater value to me than the time I spent in that firm's employ, taking care of various duties assigned to me, particularly typing reports and keeping records of the branch office.

When I have had occasion to talk to young men at college, with the hope of having them come into my office, I have had a sense of reluctance in suggesting that they sit down at a typewriter and type reports. Perhaps that arises from the respect that I hold for a college education, which I never was able to have. But from the experience that I myself had I have pointed out the advantages to be gained from going through that sort of work, and never have failed to impress the candidate with its value. That same experience, I think, contributed somewhat to the ideas that I worked out a number of years ago in order to establish a routine for handling the accounts in my own office. I don't mean that what I am going to say has any particular resemblance to what was done by the firm by which I had been employed, but the fact that I had had the opportunity to see how an accounting office operated from the inside, instead of merely from field assignments, I think was of considerable value to me.

As I conceive the routine for an accountant's office, it starts, of course, with the taking of an engagement, when a memorandum

of engagement is made out and numbered. That number is the accounting symbol for the engagement from that time until it is completed and the bill is rendered. The originals of these memoranda of engagements are filed in a binder, and attached to each is an account sheet, and to that account sheet the time record of the engagement is posted. I feel that daily reports of time are more satisfactory because they enable the office to keep the time records constantly up to date and to be in position to render a bill at any time, without waiting for a time-reporting period to be completed. The daily time-slips are tabulated by clerks in the office on a sheet for each staff man, so that there is in effect a time report for a period which is made up by the office clerk from the original slips made out by the staff men. I have no decided views as to whether service charges should or should not be accrued. I find, however, that it is a great convenience for account-keeping purposes for myself so to accrue them, and that accrual is made at nominal rates which are substantially lower than those I generally employ when actually rendering bills. We all know, however, that there are times when one can not render a bill for the full amount that may be called for by the record of time employed.

In my office I set up as revenue the service charges according to the time as reported daily at these nominal rates, and at the conclusion of an engagement or when a bill is called for the accrual charges are wiped out of the unfinished-engagements account and whatever difference there may be between the accrual and the bill is then taken into revenue as an adjustment.

The system of numbering the engagement blanks prevents the possibility of overlooking any time which may have been devoted to a case. In conference work especially, it sometimes happens that in making out time reports an hour or so that may have been devoted to some matter is forgotten, but with the numerical sequence of these memoranda of engagements to serve as a reminder I think most of the time that should be accounted for is recorded.

Mr. Wintermute's remarks with regard to keeping a record of copies of reports interested me. I visited an office last winter and found there a plan, which I immediately adopted as my own, of using a distinctive color on the cover for the office or proving copy of a report. In having those report covers printed, I set aside a little block on the outside of the cover wherein a record of the number of copies of the report which were typed is made and the disposition of the signed and each of the duplicate copies is

shown. When reports are delivered by my office they are, except when some unusual circumstance requires greater speed, sent by registered mail, and the registered-mail receipts are attached to this proving copy which is in the file as evidence of delivery.

Walter Mucklow (Florida): There were two points made yesterday that interested me particularly. One of them my colleagues and I have met in our work in the committee on accounting terminology. You may know that I have the honor of holding His Majesty's commission as British consul in Florida, and I have a good many questions put to me. Last week a man came into the office and asked me what I did. Of course, I couldn't tell him that. Then he began talking about England and he said, "What language do they speak over there?"

I replied, "English."

He said, "Do they speak as we do?"

What answer could I give him?

Those of us who listened to the accountants from various parts of the world yesterday must have been struck by the differences in their speech, and yet those differences, when you came to analyze them, were principally a matter of accent or something of that kind. Mr. Keens and some of us still call a clerk a "clark", and you call a "clark" a clerk. When it comes to the written language, it is the same. I do think, gentlemen, that we ought to lay more stress upon the use of the beautiful language which we have inherited.

Again, Judge Covington spoke of the likeness and the differences between accountants and lawyers. I am afraid that you will all agree with me that the average lawyer's brief is a great deal better written, perhaps more clearly expressed, and certainly in better English than the average accountant's report. I hate to say that, but I believe it is the truth. I do think that we ought to pay more attention to our own language and its proper and elegant use. On the other hand, I do not think that we should try to bring into our reports all the terms which my colleagues and I are trying to define.

I think that, speaking rather broadly and generally, we should try to avoid those technicalities. If it is impossible to do that in the report itself, don't you think it is very often wise to let that report be accompanied by something in plain English, something which can be, as the Anglican prayerbook says, understood of the people?

One of the speakers yesterday spoke of papers getting mixed or lost. Personally, I follow the same principle of which Mr. Andrews spoke—numbering every engagement. Have you ever thought that if your clerks were furnished with a cheap rubber stamp with numbers on it, they could put that number on every one of their working sheets with the loss of no time and with very little effort? It sounds so simple a thing that it is hardly worth speaking of, and yet when you get out the reports of one concern for several years past, you can see how easy it is for last year's papers to become mixed with those of the year before. By the use of that little rubber stamp you may avoid that possibility.

Mr. Nau: On the subject of accruing accounts in an accountant's office, and of time keeping, perhaps it might be of a little assistance to describe very briefly the method we use, which in principle is much like that used in other accountants' offices, but from which we think we have taken some of the red tape. It is very simple and accomplishes many things.

At the beginning of the accounting record we use a pamphlet, about the shape of an ordinary voucher, that has in it two pages for each day in the week. It is a kind of diary, in which is recorded the work done each day by each individual. The members of the staff and the partners themselves make such a weekly time report. One page is for expenses and incidentals, etc. The other page is for time spent, and there is plenty of space on it.

This is a record of the time in hours, as well as a diary of the progress of the work and the detail worked upon by the accountant in question. At the front is a summary. Each day has about four or five lines, labeled Sunday, Monday, Tuesday, Wednesday, and so on for the week. Except during the very busiest period the Sunday time is never occupied. The one who makes out the report usually fills in the summary.

The back of the pamphlet is the office voucher and becomes a permanent record in the office. It is made out in the office. We made a rather careful study and decided that for all practical purposes, when after eliminating Sundays, Saturdays, half-holidays, all the holidays in the year and two weeks' vacation time, sick leave and time spent attending grandmothers' funerals, weddings, and so forth, two hundred days was the practical working time of the year, so we have arbitrarily assumed that figure of two hundred days of working time. Seven hours constitute a day's work. That furnishes the unit. The salary is divided by

the number of hours and establishes a unit for the charge to the case on the back of the voucher.

In the case of partners and some others who do not draw salaries, an arbitrary figure is established and that is credited, not to salaries and wages account, when the voucher is entered in the journal, but to an account called "Partnership service." This is merely a method of getting into the cost of the case an arbitrary amount which is supposed to be a fair salary of the partner and also his charge of time to the case.

In that manner all the information is assembled on this single document, which is time record, diary of the case, cost account, cost record and cost voucher. Items are posted directly to a work-in-progress ledger, which, of course, is maintained under control. That enables a monthly statement to be made. Then, when a bill is rendered, the items are cleared, of course, out of the work-in-process account, in the same amount at which they were charged therein originally, and the rest appears in the profit-and-loss columns. So we have the sales, or what is analogous, services, on one side; the cost of services on the other in the statement; and the gross profit on each engagement. We don't follow this procedure so far as to burden each individual case with its share of the office overhead. Of course, the statements we get each month automatically have all the overhead in them on an accrual basis, but in order to find the overhead on any particular engagement it is merely necessary to add what experience shows has been the overhead and has not yet been charged to the cost of service. This system automatically furnishes a monthly statement at the closing of the books. It reduces records to a minimum so far as time records are concerned, because time record and voucher are one document.

The work-in-process ledger is, of course, a columnar one and has a number of columns for time. If the engagement is made on a per-diem basis, it can be noted in a column, so that the total number of hours may be readily computed, as well as the total fees.

James Hall (New York): I should like to discuss for a few minutes office accounts and then come around to Mr. Olive's paper.

The first thing to do is to make an engagement record, showing with whom you made the arrangement, the date, what you are going to do, and your terms. You know that most accountants are poor business men. We don't bother very much about it; we

think the client's word is good, and we very often find we have made a mistake. One should never let an engagement begin without confirmation. If it is a big engagement, you should make certain that you will get money as you go along—sometimes every week, sometimes every month, and occasionally in advance.

The engagement slip has a number, and in our office that number controls everything connected with the engagement: the account in the client's ledger, working papers, correspondence files, etc. Each new engagement gets a new number even if it be for an old client.

With regard to computing the time, we have found by experience that the weekly time is satisfactory. The accountant sends in a summarized time and expense report. The expenses are in reasonable detail. Then each week he sends in a detailed time report, that report stating exactly what he did on his sections and subsections of the work.

In dealing with inventory, it is not sufficient merely to say "Inventory—8 hours." You want to know what the accountant did during the time. We consider that very valuable if we get into an argument with the client afterward.

Those reports come into the accountant's office every Monday morning. Whenever they come, they are passed by an office manager; then they go to the client's ledger. In that client's ledger we don't care anything about cost. We charge the client with the time and with the expense. We run along until the end of the quarter; the case may be billed out as we go through, but at the end of the quarter we pick up the time by hours and the actual expenses. We pick up that time at an average predetermined figure based on the previous year's work.

Mr. Nau: In our scheme that figure is the exact time recorded.

Mr. Hall: We think that is too much work. The office has to account for all the time charged to clients, just as a perpetual inventory is kept. At the beginning of the year, so many open hours; add the time worked; deduct the time billed, and the balance is a certain figure. We are not concerned about the cost. We would rather govern the fee by what the fee should be.

Mr. Nau: But it is very interesting to know how various engagements run, and one uses men who receive various rates of salary.

Mr. Hall: I don't care so much about the details. Assume your standard rates to be \$13.20. Did the case produce \$13.20 or better, or did it produce an average of \$10?

Mr. Nau: Our records tell us all that.

Mr. Hall: Our records satisfy us also. We have found by experience that cost computed on a great many small jobs was making a vast amount of work. We would rather know how near an office comes to producing what we consider average income. We can control the expenses of an office and we can control the men very simply. The question comes down to applying the principle of last year's costs. Are we getting standard costs? They are calculated against each engagement.

At the end of the month a summary is made up and turned over to the department manager. He arranges his billing on the basis of that summary of time. That is where it is compared with what we think it should produce.

Harold Caffyn (New York): I should be interested to know what procedure Mr. Hall has adopted with reference to traveling time. I have found, particularly in lawyers' offices, that there is quite a difference of opinion on that question. I discovered that one lawyer recently charged for fifteen and twenty hours a day. I said, "You are working pretty hard, aren't you?"

"Oh, no," he said, "I am sleeping pretty hard."

He charged from the time he set out at night until he got to the place of engagement in the morning. Then during the rest of the day he worked. He charged so much an hour for his sleep—apparently doing very well on his sleep.

Mr. Hall: He is a better business man than I am.

Mr. Caffyn: I know of a lawyer who charges only for his working time. There is a similar difference in the accounting profession. Over in England, particularly, it is the practice to charge from the time one leaves the office until he either returns to the office or until he would theoretically get back to the office. Here it seems to be the practice to charge the actual working time spent at the client's office. I believe some benefit might accrue if we could get some idea of what is the usual practice in accounting offices.

Mr. Hall: I can't tell you about other offices but I do know that we couldn't get away with charging sleeping time. However, I think if you are going to the Pacific coast, let us say, all your day time is chargeable to the client, because your business time is occupied. But if you go up to Buffalo overnight, I don't think you should charge for your sleeping time, unless you could charge the client on the basis of what the service is worth. In

that way you get away from the per-diem rate, and that is what I think we accountants ought to do—charge on the basis of the service.

Mr. Mucklow: May we return for a moment to the question of numbering? I have tried both ways, that is, letting a client have one number and then using a letter to indicate successive engagements, or, on the other hand giving a separate number to each engagement. I have found the latter much better.

Mr. Hall: We have found by experience that that is the better way.

Mr. Andrews: May I say a word with regard to my use of daily time slips? I adopted those daily time slips after suffering some embarrassment through having records of engagements for one client confused with records of another. When I say daily time slips I mean that a slip is made out for each engagement for each day. If an employee or I work on four or five engagements in one day, there are four or five time slips for that day. If there is only one engagement then there is only one time slip.

The time slips are about the size of an ordinary voucher and all the slips relative to a single engagement are filed together. A complete record of the time is kept on the sheet, which is made up by an office clerk. That permits of display for inspection, if any question is raised, of all the time slips covering a certain engagement, without disclosing to the persons who have no right to know it any information about time put in on other engagements, or even the name of a client.

Mr. Hall: That problem is solved by the detailed time sheet in our case.

Mr. Andrews: I can display to any client who questions the bill the original report of work submitted by the staff man, without permitting the client to find out anything about any other engagement.

Mr. Hall: So can I. There is a weekly summary which covers all the engagements for the week. Then for each engagement there is a detailed time summary. These are summarized at the end of the engagement and put in with the working papers. Then should any question be raised, the client can be shown the record.

Mr. Weissinger: At the present time I am suing a client for my fee, and the two lawyers who represent me believe that what Mr. Hall referred to as an original record is not an original record and that I must produce the time slips.

Mr. Hall: I produce the time slips. We try to avoid arguments by specification in advance showing exactly what we are to do, and the terms. I think much trouble is due to the somewhat easy way of saying, "All right." It is the part of wisdom to make it a matter of record to whom you are to deliver the report, what the report is about, your payment, and who is paying. This will avoid a great deal of trouble.

Detailed time sheets are filed by engagements. When the work is finished the detailed time sheets are gathered together. Sheets for all the time on inventories are segregated under that heading, to answer inquiries afterward. They are summarized and filed with the individual engagements and the permanent records.

All time sheets are signed by the men who send them in. The manager approves them and assumes the responsibility from that point onward.

Mr. Mucklow: There is another quite important question on which I should like to hear from Mr. Hall and from some of the accountants with small offices like my own. I refer to the rendering of bills. I assume one generally renders a bill for a lump sum.

Mr. Hall: It depends upon the terms of the engagement.

Mr. Mucklow: Where I live, one is almost forced in many cases to render a detailed account of time spent by the men.

Mr. Hall: I think I am correct in saying that we very seldom give detailed statements.

Mr. Mucklow: It seems to me that we should get away from them.

Mr. Hall: I think we should get away from the per-diem basis, but when you come to the bill I think it better to send in a bill for say \$500, and then if an explanation is asked, send a letter explaining what the time was.

Mr. Fitch: If you are getting away from the basis of a per-diem charge, does that necessitate a lump-sum price in advance when you confirm the arrangement for the audit?

Mr. Hall: Oh, no; simply an understanding that you will charge a reasonable fee. When you get your client to believe that you are an honest man, that will solve the problem.

President Hurdman: In New York state I understand that in the surrogate's court practice, if you are called in by the executor of an estate to set up the books of account, there is considerable latitude in the amount which you may bill for that kind of

work. When that is terminated, you are limited to \$25 a day for the time spent on the preparation of the account. I am wondering whether any of us have had experience in that particular kind of work and whether or not, if we were called upon to prepare an account where, we will say, no records nor books of account have been kept, we would be justified in stating that part of the work done in preparation of that account was in the nature of administration expense and in effect was supplementary to, or a substitution for, the work that should have been done in the keeping of records. Could we claim that that part of it, just the preparation of the schedules, was really preparation of the accounts? The matter has just come up and it seems to be a question whether the attorney had any right at all to call the accountant in to prepare the account, and if so, whether the accountant could charge more than \$25 a day.

Edward E. Gore (Illinois): In our state the allowance is made by the probate court. The accountant files his bill and the probate court decides its allowance against the estate.

President Hurdman: As I understand it, the usual practice is to allow the bills that are presented by the accountant. Unless there is some objection on the part of the beneficiary of the estate, the surrogate's court will pass the bill, but if there should be any objection the surrogate is bound by law, or by the procedure in the surrogate's court, to fix the bill at \$25 per diem for the actual time spent by the accountant.

Edwin H. Wagner (Missouri): I had a case in St. Louis recently before the United States district court. It was a receivership, and we were asked by the receiver to make an accounting. Our bill was rendered. The judge wanted both sides to be heard; he notified both parties, and I appeared in court with the attorney for the receiver. Our bill was rendered on the basis of our regular time charges. The judge called for remarks from the other side, or from both sides, and there were no protests. The judge then made this remark: "I am under the impression that accountants are in the habit of charging extremely large fees. I am not here to decide this. I am not competent. It appears to me that the fee is rather large, but I am not going to adjudicate it. If there is no objection, the bill will be ordered paid." And the bill was ordered paid on the regular per-diem charges.

Mr. Wintermute: In each case where a bill has had to be passed by a court I have followed the policy of taking the matter up

with the attorney before going to court. He will usually give advice as to the best manner of handling it. In some cases he will tell you to do one thing, while in other cases he will tell you to do another, but in each case you will usually wind up by having a bill that will meet with the least possible resistance in the court.

Mr. Keens: I have been following this discussion with a good deal of interest. On getting into a trust matter have you any basis of charges as against the tenant for life and the remainderman? It is perfectly obvious that if you are going to get into any litigation about the charges it will be, in the main, when your bills are against the life-tenant, because he or she will take you to court on the ground that his or her income is being reduced. Is there any standard practice as to division of accounts as between the tenant-for-life and the remainderman?

Mr. Hall: I don't think the question arises often here. I think I am correct in saying it is almost purely British practice.

May I now revert to Mr. Olive's paper of yesterday? Mr. Olive made what to me is a rather new suggestion as to employing no juniors. I don't know how he gets along without juniors in his office. Of course, I think the whole secret of our future success is in the selecting of junior accountants. I don't think we are going to have much success in taking ex-bookkeepers of middle age and trying to make accountants of them. We have to get a young fellow and bring him up in the office. If we do that he will develop the proper esprit de corps; he will learn our ideas, and we can make a partner out of him some day. But we are never going to have any success, as I see it, by taking old men and trying to make accountants of them.

Mr. Olive, if I understood him correctly, said that his accountants bring the papers into the office, and somebody in the office writes the report. I think that is all wrong.

Mr. Olive: Mr. Hall misunderstood me on that. The accountant in charge of the work writes the report.

Mr. Hall: That is as I think it should be, and I think the report should be written while the man's mind is on the job, not in the office. I have written quite a few reports in my day, but I never wrote a decent report in the office. I always forgot something when I came away. The only way to write a report is to write it in the client's office, where one has access to his files and can have discussion with him.

Mr. Nau: With the additional advantage that the client knows you are devoting the time to his work.

Mr. Hall: I was thinking about that, too. The man should write the report while he is on the job, bring all his papers back to the office, have them reviewed by a reviewer or a supervisor, and then let a partner give them the final review.

We all know that the average working paper is a disgrace. At least, it was so a number of years ago. The papers were not indexed and when one had an argument with a client about some phase of the work one was simply helpless. We can afford to devote time to working papers.

In our office we have paper that is about 15 inches deep, 11 inches wide. That paper is punched on the sides. When a man goes out on a case he takes a supply of working paper and one or more ring binders. When he is through with the working papers they are put into a ring binder. When the engagement is finished all the papers are taken and attached to a numbered balance-sheet. The balance-sheets are made up, when we start, from what the client has. Assets will be No. 1, accounts receivable No. 2, and so on. The working papers, as completed, are attached to the balance-sheet. The profit-and-loss statement is handled in the same way. After the engagement is finished, the papers are carefully arranged numerically; the bank verifications are put in there, pasted on paper, or a reconciliation is attached, so that when we are finished we have a complete record of each item on the balance-sheet and the profit-and-loss account. Afterward the working papers are taken out, bound in permanent form and filed with a bound copy of the report attached. Then we have what is called a permanent file. There are some things we don't have to do every year, so when the engagement is first obtained we start what is known as a permanent file. That is a complete record of the capital-stock structure, the organization of the company, date and state of organization, bond issues. Everything is put into this permanent file. That goes out to the man in the field and any additional changes made during the year are merely added and the file is reindexed or its index is corrected, so we are saved the trouble of going through all that work every year. The accountant merely takes the permanent file, consults the index and the notes, and he is up to date.

Our practice is to check our report files once a year. When a report goes out of the office once a month, each office gets a copy of

that report. A copy is kept in the practice office—in fact, there are two copies kept: one in the working papers and one in the bound book. There is a complete list of deliveries made, and that has to be checked every year to see that all the reports are in the file. If not, we must find out where they are. They may be sent to another office or taken out for some purpose, but every report has to be accounted for, and if it is missing there has to be an explanation of why and where.

Mr. Gore: I feel that the subject of employment hasn't been quite as exhaustively discussed as it might be. The discussion has touched the matter of employment of college men and men who have not had college advantages, but there is a phase of employment that has been encountered by everybody in the profession which has not been mentioned. I refer to the question of when, if at all, the employee is called upon to state whether he is going to be a public accountant or whether he is availing himself of the educational advantages that a junior obtains in order to make him more valuable to some business organization.

In my own practice our loss of men is entirely to clients who become admirers of theirs, admiring their work and estimating them to be valuable and offering them compensation beyond what we can afford to pay. I have concluded that it is the part of wisdom to arrange with the young man when he comes in that he is going to stay for a period which I try to make five years. I am, however, guided in that decision as to the period by the conviction (which has been forced upon me by a good many years' experience) that no man is going to develop to the fulness of his powers as an accountant in less than five years, and that he should, in justice to himself, devote five years to that work in order that at the end of that time he may be a first-class accountant and be prepared to take a position, if he doesn't care to follow accountancy as a profession, that will be worth having.

My biggest difficulty has been with the man who has been on our staff for about two years and is receiving compensation that is up to the average paid for men of that experience, but is offered perhaps 25 or 50 per cent. more by some client. Of course, if he be a young married man, it is nearly certain that he is going to accept the additional compensation and forego his ambition to be an accountant.

Within the last year or two I have adopted a rule that I will not employ any junior accountant who is a married man, on this theory: the married man can not keep a wife decently on the salary of a junior, and the result is that the wife, who knows that her husband is the wisest and most valuable employee that anybody ever had, feels that the firm is discriminating against him, is starving her and him, and preventing her from having that fur garment that she certainly ought to have. So I have adopted the rule that married juniors need not apply, and I think it a valuable rule. There may be exceptions. I had one junior whose wife was a millionaire, and it may be interesting to note that he was as punctilious in attention to his duties, as uncomplaining about being sent out of town and kept for a long period, as any man in the establishment. He usually wanted a couple of months in the summer for a vacation at his own expense—or hers. I have known him to cruise to the West Indies in such circumstances, but there never was a moment of working time when he didn't give as good attention to his work and to his duties as the most humble man on the staff. And it may please some of my Canadian friends to know that he was born and brought up in Canada, where discipline is discipline, and that the charm of the Canadian interested and inveigled and finally overcame, or rather engaged, the affections of an American millionaire girl—another tribute to the enterprise of Canada.

I really think that in this matter of employment there is opportunity for a great deal of discrimination and something of a duty resting upon the employer to make himself familiar with the situation with respect to each employee—as to his progress and his tendency. There are men who start from the chalk-line but will never make accountants. They may be graduates of schools of commerce of our best universities, but I contend that a man for that reason need not expect that he is going to make a successful accountant, because accountancy requires a peculiar type of mind.

The man I am always looking out for is the man who is going to be partnership material some day, and I contend that it is necessary for success to be born with a particular adaptability for accounting work. I have in mind one young man in my employ who, at the age of twenty-seven, was the biggest earner in my establishment and the most valuable man in it. He was very

valuable, and one of the large corporations reached for him with a salary as long as your arm, and he yielded. However, since he had the accounting instinct born in him and has a most remarkable equipment for the work, he finds himself unhappy in anything else, and I am hopeful that he is going to wend his way back to the fold.

I think the employer can greatly advance his own interests by keeping close watch on the progress of his employees and their tendencies. It is so easy to have a staff loaded with men who are doing their work in a perfunctory manner, getting by with it, doing work which is fairly satisfactory but doesn't indicate that they are ever going to be real accountants. I believe there is a duty resting upon the employer to take such an employee to one side and say to him, "You are not going to make a successful public accountant. You ought to go into some other kind of work." Then he should cast about for somebody to succeed this employee. The temptation is very great to keep a fairly satisfactory employee on the staff rather than to make a change, but that, of course, neglects entirely the duty of the employer to look out for the future of his men. I think that is a substantial duty, that a man who is found to be in the wrong kind of endeavor should be helped out of it just as soon as it is possible to do so.

My opinion is that the college man will more frequently make a success. My own experience is that when we take on two men, one of whom has had college training and the other has been a bookkeeper for two or three years, for the first year the college man is inferior, but at the end of the second year he is very much more valuable than the other man. That reminds me of another point—we need boys who have had a business-college training and have kept a set of books, because usually they can write so that one can read it. The average college boy can't write so that he can read it himself. No doubt every employer here has experienced the embarrassment of being quite unable to read the writing of his employees, so it seems to me that there is room for improvement in that very elementary phase of the work. We should insist that they learn to write, even though they have been through college, before they enjoy any substantial advancement.

The whole subject of employment is worthy of our best attention. It embraces the human element, and the human element is always more interesting than any other. It would be a dull

world if one could not indulge himself somewhat in speculation upon the quality, the capacity, the probable future of those by whom he is surrounded.

Henry B. Fernald (New York): From time to time, like all of you, I find occasion or opportunity or necessity for one reason or another to divert some of my thought from the affairs of my clients to the affairs of myself and my office, and recently I had occasion to do some speculative thinking on the problem not so much of where we shall find the juniors but where we shall find those constructive, able, conscientious seniors whom all of us would like to have composing the great majority of our staffs. Incidentally they are the kind of men for whom our clients are continually angling with high-salary baits.

I have made some estimates from time to time and I have applied them to myself, instead of to my client, as he sometimes likes to have me do. I find that of the men whom we find ourselves or whom our friends recommend to us or of whom we hear in other ways many must be rejected. I am not sure of the exact number, but I suppose that of ten applicants that come to us we find one man whom we really want to consider. Then, of ten that we consider, I wonder if there is more than one whom we shall really employ. We would like to take some others but their ideas of proper compensation and opportunities do not agree with ours.

Now, to continue a round figure, let us say that out of ten whom we employ there is one we shall retain in our service for a considerable length of time. To carry it further, say that out of ten whom we retain in our service we have one who will prove to be the exceptionally good senior that we want. I find that $10 \times 10 \times 10 \times 10$ is 10,000, and if we merely take the law of averages and assume that these figures are correct, we might have to consider 10,000 applications to find each really good senior. And if I must provide so that several years from now I shall have five really good men more than those with me now, who will continue with me, I should start right now to consider the 50,000 applications to come before me.

Of course, it all comes back to this: the thing can't be done. Yet one must look ahead. So I wonder what measures we can take to cut down what I think is by no means a fanciful average of 10,000 applications to one good permanent man. I think the only answer is that we must find a short cut.

Now, to revert for a moment to the question of accounts and records. I may say I have tried to do in my office what I have tried to do for my clients, namely, to provide a system best adaptable to my own particular kind and character of practice. The system which Mr. Hall has been describing differs from what I find best, and while there are many conditions in my office that are not entirely satisfactory I believe that I have a set of accounts which does meet our demands.

In the first place, I practically never confirm an engagement. I find that it is not necessary. I am satisfied that I should lose more by definite confirmations of engagements than I should gain. Perhaps that is due to my particular class of practice and the class of my clients. I think I have been able to go pretty far in getting away from the per-diem fee and charging a fee for services, larger where the large service is rendered to one who can afford to pay, and smaller otherwise. The system is not perfect, but I think my situation is perhaps different, and I have not found occasion generally to confirm engagements.

We have put in a definite cost system. We use 250 days to the year as the basis, which is one that the average man will underrun but special men from time to time will overrun. We have weekly time reports.

Mr. Nau: I made a misstatement about using 200 days as a basis. It is an average of 2,400 hours a year—200 hours a month.

Mr. Fernald: We take 250 days, 7 hours to the day, and divide the salary by that. On that basis we do the costing, which we do not put on the time reports. We post the costs in two ways: one, as to the engagement, for which we have a time-record sheet ruled with a column for each man on the engagement. Sometimes we have to interleave in order to make that possible. We have often considered whether or not it was necessary work, but we have always decided that the advantages in the past were sufficient to make it worth while. This record is summarized both by time and by cost for each man on the engagement. At conclusion of the engagement, from our time book we post to the fee charged and we compute the profit on the time.

I might say that we make four fundamental divisions of time. One is "partners," for whom we charge no cost; the second is "accounting staff," which we charge on the cost basis; the third division is the "report department," with which we deal on an entirely different basis, of course; and the fourth division is

“general office,” because some employees are in the general office from time to time rendering chargeable service. In our bill journal we pick these items up and show the fee charged for partners, for accountants, reports and general office. Even when we charge a flat fee, we allocate the time charge to each man. We find that it works satisfactorily.

Again, we have a sheet to which we charge the entire salary paid each man, and against which we credit the fees earned, both as to the amount of his salary represented by the employed time and the amount represented by unemployed time. Some of our men will have perhaps unduly large amounts of unemployed time, but will earn far more than the average in fees. We often wonder to what extent we can rely on the showing of the individual man's time. The man who has the largest fees charged for his time in the course of the year is not necessarily the most valuable. He may be the man who simply takes assigned work and does it, and keeps busy all the time.

From the time sheets of individual men we have an annual summary prepared, tabulating all the results. The time sheets of individual men are well worth the time taken to prepare them.

We have in our general ledger one account for general expenses which we have analyzed in a book with cost columns. We accrue fees as bills are sent out. Bills are sent when in the judgment of the members of the firm it is the right time to send them. I thoroughly subscribe to the belief that we ought to send them out oftener, and I am much inclined to think that we, as accountants, should in many cases send bills even during the course of the work, instead of following the general practice—waiting until the conclusion of the engagement. I do believe, for ourselves at least, that the costing of work is worth while, both as to the individual engagement, comparable from year to year, and also as to the summary by men, which gives a basis for review of the services which the men have been rendering and of their value to you.

Maurice E. Peloubet (New Jersey): I have been a little dismayed in the discussion on employment, which is a very interesting thing to all of us, at the note of pessimism which has run through it. While Mr. Fernald was talking, I thought of the family life of the oyster—millions and millions and millions, and then finally one oyster appears. I really don't think that we get our first-class seniors that way.

In our own small practice we must be particularly fortunate, because we have been getting men from the placement bureau, or other college men. For the last ten years we have been making a policy of employing college men and we find that one or two good men out of five is our usual average. We always thought we did rather poorly to get only one or two good men out of five, but apparently that is rather good.

Another point, which is really more important, is the purloining of good men by clients. It seems to me that there are two ways to overcome that. Of course, the first suggestion is that it should be possible to compensate first-class men as well as clients can. Sometimes one can not, but in a great many cases one can. In case after case clients have said that they wanted certain men to work for them all the time, and almost invariably we have pointed out to clients that a man can be more valuable by devoting half or three quarters of his time to the clients' work and remaining a part of our organization than he can by devoting all his time to the client. We say that the client has a very simple remedy. The best thing he can do is to increase the fee; we will increase the compensation of our man, and the client will get better service than if the man were in his employ. That sounds a little humorous but it is true. I can think of four cases in the last two years where we have convinced the client that the man was much more valuable when he had the facilities of our organization, when he could consult with everybody in our organization, when he was in public work.

Mr. Gore: Will Mr. Peloubet let me interrupt for a moment? My experience is that whenever one of my men is approached by a client, the wise thing for me to do is to help him get the job, for if I don't do that his loyalty will be gone. He will feel that I have not tried to help him to the higher reward that he could have had, and, that being the case, he will remain only until he can find another opportunity elsewhere. So after years of experience I am more and more convinced that the proper thing to do is to help the man get the job and then have in that position a friend.

Mr. Peloubet: I think that is absolutely the right thing to do, and the only thing to do, provided one can not offer a better inducement to remain. One certainly should not do anything to make an enemy of his own man, but when one can persuade a client—and I think that it can be done in most cases—that a man is more useful as a part of one's organization than he is in the

client's own exclusive employ, and when it does not injure the man, I think it may be the better thing to do.

In conclusion let me say that we do not insist on confirmation of engagements. It does not seem to us to be necessary.

Mr. Hall: So that there may be no misunderstanding, I should say that my firm's situation is very different from that of Mr. Fernald's and Mr. Peloubet's. When we deal with a banker who calls upon us to examine a company, we must have confirmation, so that there may be no misunderstanding between us as to what has to be done and who will pay.

A few weeks ago we took instructions from a banker to make an examination. The understanding was that the company audited would pay the bill. Then there was an argument as to who should receive the reports. Each said, "Don't give the report to the other." Such questions must be arranged in advance to avoid controversy. But I quite agree that where one is dealing with a client of twenty years' standing, there is no occasion to confirm anything.

Mr. Andrews: There was another matter mentioned in Mr. Olive's paper that has not been discussed this morning. That is spreading the work of an office so that a small staff may be kept reasonably busy throughout the entire year. That engaged my attention long ago when I was in a subordinate position. After long nights of overtime I formed a resolution that if I ever reached the point where I could control matters, I certainly would endeavor to reduce the pressure of burdensome work. Following the agitation that the Institute has helped to foster for the use of the natural business year and by the device, to which Mr. Olive referred, of taking care of interim work during the year, so that a great deal of the audit work may be done before the client's fiscal year or the calendar year has closed, I have had a gratifying degree of success. I can say that, whereas ten years ago I was a member of a partnership composed of three partners and maintaining a staff which never was less than I have at present and at certain seasons was two or three times as many, for several years now, conducting my practice as an individual without partners and with a permanent staff, as I say, less than the minimum employed by the old firm, the gross amount charged clients has exceeded the revenue of the firm at any time. I feel that we can secure our interests very effectively by attempting to arrange our practices as Mr. Olive has suggested.

Mr. Wintermute: It has occurred to me that our discussions about accountants' office records have had to do more with the medium-sized and large firms. Possibly you would be interested in knowing what is done in a little office, which employs from five men in the summer up to ten or fifteen in the busy period—a sole proprietorship.

My books are kept on a cash basis; there are no accruals in the financial books. I don't even carry accounts receivable there. While I have a clients' ledger and have it under control, it does not enter into my trial balance. Upon engagement full detail of the arrangement is recorded. Everybody, including office boy, stenographer, accountant, proprietor, makes out a daily time ticket, about the size of a hand blotter, which shows the entire record for a day: namely the time of beginning and ending on that particular work, the elapsed time, where the work is performed, that is, whether in our office, in the client's office, or elsewhere; the name of the client and the detail. That record is posted to a sheet 8½ x 11 inches in size. If two men are engaged on one assignment, there are two of those sheets. The sheets provide for a month's records. Each sheet carries a transcription of what the time ticket shows. The office secretary makes out that record. At the end of the engagement all the sheets are tabulated on another of the same size, which merely summarizes the time, with a space below on which the detail of the bill is written.

A lawyer attempted to educate me in the proper method of billing, and as a result of his advice my invoice reads: "To services rendered (between certain dates) in re"—and then as fully as practicable a résumé of what was done. I give no detail as to time. Perhaps once a year a client will ask for supporting detail. Then I simply hand the file to the stenographer and tell her to make a typewritten transcript of it and turn it over to the client. If there is a dispute with a client over a charge, I simply take the time record, lay it on the table in front of him, and say, "Here is the record." I prefer to have the entire day's record for each employee on one sheet, because the client is not impelled to ask, "Are you sure you haven't charged someone else with that same period of time?" He sees the complete record for the day.

The time book, distinct from the cost record, divides the employee's time under four classifications: time chargeable to

clients, time chargeable to office operations, time taken out for personal reasons, and time when there was no assignment of any kind.

John M. Gilchrist (Nebraska): I have a story that I tell my client who asks me for a detailed statement. I don't send in a detailed statement of time, but when he raises the question as to the bill I tell the story of the engine that went out of commission in a factory. An expert was engaged to repair it. He came, asked for a hammer, and tapped two or three times on different parts of the engine; then he told the engineer to turn on the steam, and the engine ran perfectly. The manager was very well satisfied and told the expert to send in his bill. He sent in a bill for \$200. The manager protested vigorously and made the usual request for a detailed statement, so the expert prepared a statement which read:

To services rendered:	
Tapping with hammer.....	\$ 2.00
Knowing where to tap.....	198.00
Total.....	<u>\$200.00</u>

President Hurdman: This has been an interesting and profitable discussion. Mr. Gilchrist's story I think provides a fitting finish, and as our time has elapsed, I will declare the meeting adjourned.