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## Editorial

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# *The* JOURNAL of ACCOUNTANCY

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A. P. RICHARDSON, *Editor*

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## EDITORIAL

### Participating Philanthropy

There is a benevolent sort of man at present engaged in a purely altruistic and humanitarian effort to increase the knowledge of the community at large and, quite incidentally, to enhance the income of the accountant in particular. These kindly souls have been much distressed by the evident lack of appreciation of the great benefits which accountants can render to the commercial, industrial and financial world. It is a sad commentary upon the discernment of the average business man that he sometimes overlooks the wonderful advantages which he might derive by the simple expedient of calling in an accountant—almost any accountant—to set him in the right way and to keep him in it. These perturbed magi have evolved a noble scheme for the enlightenment of a benighted people. They have prepared literary essays in praise of accountancy—some of them are really quite convincing to one whose desire to be convinced is adequate—and have gone to the trouble and expense of printing the expository treatises. They have done this out of their sheer love for the neglected profession whose means of salvation they will be. But this is not all. The authors, moved by an altogether beautiful spirit of philanthropy, are quite willing—or they profess to be willing, which is even more commendable—to allow their writings to be adopted or step-sired by any accountant who desires to augment his parental responsibilities in that way. The real authors can be induced to forego all apparent interest in their offspring. They will retire from view and permit the accountant foster-father to have all the glory as the child goes out to educate and illumine a dark and naughty world. True, a monetary compensation for parting with the little one is expected, but it is only the proper thing to require some token of gratitude. True, also some rough-speaking ingrates have made bold to call the published letters “boiler-plate,” whatever that may mean. Such

truths should be ignored by every accountant who recognizes the motives of the authors as wholly unselfish. The eloquent young men who go about explaining to accountants the inherent values of the instructive homilies might well disclaim any intention to sell the subjects of their enthusiasms as a shopkeeper would sell, say, sad-irons. The venture is primarily for the good of mankind. So we are told and in part do believe. That is to say it is undoubtedly intended to help some one.

**Pernicious  
Salesmanship**

Heartlessly we had hoped that the generous thoughtfulness of the manufacturers of boiler-plate—let us be brutal and skeptic for a moment—had abandoned their attempts to reform the conditions of business and had taken up some other and more productive life-work. The accountants who really amount to anything have been utterly deaf to the voice of the vendor of tracts. The American Institute of Accountants has frowned upon the notion that it could ever be ethical for an accountant to dispense the kind of pabulum which has been cooked and canned ready for serving. Some misguided firms which had been talked into tractarianism have turned from the evil way. It seemed that the scheme must be as dead as Queen Anne, so dead indeed that even its former supporters would feel impelled to leave it. But, alas, the thing was merely in coma, or it has been restored to life. It is afoot again with renewed vigor and some fresh trappings—trappings seems to be an appropriate word. The latest agents of the creature are going about a few of the large cities, displaying the customary list of pamphlets, explaining their seductiveness, enlarging upon their conformity to the Institute's code of conduct and offering exclusive rights of publication in the district in which the victim dwells. So far there is nothing new. But it soon appears that a progressive mind is directing the arguments of the salesmen. Let us suppose, for example, that the peddler is at work in Baltimore. He visits a well-known accountant, extols the effectiveness of pamphleteering and urges the prospective buyer—"subscriber" is, we believe, the technical designation—to seize the opportunity, which some other accountant else will surely grasp. The natural reply to all this palaver is a reference to the rules against advertising. Now comes the new idea. The salesman says: "Oh, is that all? Why Mr. Above-Reproach of New York has purchased the service.

Here is a sample of the brochures which we are printing for him." And lo! a sheet is presented on which appears the name of a firm of the highest standing. Of course the thing is a lie—it is a method of misrepresentation which has an ugly name and an uglier consequence in law. Unfortunately no copy of this spurious matter has yet been secured. The agents are too wary for that. But every accountant should be on his guard and when allegations of unworthy tactics are made against other practitioners, the maker should be asked for proofs. The proofs, if supplied, should be retained and investigated. Thereafter the correct procedure will suggest itself. This is a small and nasty affair. Of course, it will not last long. Meanwhile accountants should disbelieve all slanders against their fellows and deal with lying salesmen as primitive instinct dictates.

**The Accountant and  
the Market**

A practising accountant of some prominence said the other day that he did not pay much attention to the fluctuations of the securities market. He did not believe that it was any part of the function of an auditor to discuss the state of the financial exchanges. The long bull market might be at an end and an equally long bear movement might be about to begin, but it meant nothing to him. He invested his personal savings in mortgages, government bonds and similar things which are not greatly affected one way or another by outside influences. No doubt this man is wise in his choice of investments. In the long run he will probably have greater capital than his venturesome confrere who takes a "flier" now and then in more sensitive securities. But can it be said with truth that the trends of the stock and bond markets are not of importance to the accountant whether he be practising in New York or a small and remote town? Is the accountant who wilfully or inadvertently overlooks changes in the general prices of securities competent to render professional service to a client so well as the alert and informed practitioner can render it? There is a good deal to be said on this subject and it is quite out of the question to enter into a critical analysis of the native and acquired knowledge which the ideal accountant should possess. It is common to say that the accountant can neither know too much nor say too little—which like all catch phrases is partly true and to a considerable extent false. Certainly he can know too little and say too much, but in most cases we believe

that the accountant knows enough to do his professional duty well. He often fails, however, to say enough. Take this question of familiarity with the conditions of the security markets. How can a man who pays no heed to a factor which often is controlling be expected to reach a solution of the financial problems of a corporation to which he is appointed or elected auditor. Under the old conservative conception of an auditor's duties, which still prevails in British practice, the auditor may be forgiven if he concerns himself solely with the entries in the books of account of a period which is past. He is required to verify history. If he goes beyond that he may be accused of overstepping the bounds of his allotted domain. But it is different here. In America, especially in the United States, the auditor is called upon for fiscal advice. How can he express an opinion which will have any merit if he is ignorant of the facts with which the ordinary man of business is acquainted?

**Knowledge of Finance  
is Essential**

It seems exceptionally important to follow—as a spectator, of course, not a speculator—the trend of the security market at such a time as the present. An unprecedented advance in prices has continued for years. Month after month the market values have climbed. Only two or three serious declines have taken place, and these have been quickly succeeded by prosperity greater than before. This has been concurrent with an abundance of money and a cheap dollar. So there arose an inclination to look askance at the kind of securities which produced a fixed number of dollars in interest or dividends. A revulsion of feeling encouraged the sale of bonds and most of the preferred stocks and the purchase of common stocks which would pay the owner a share of the profits based upon the conditions existing at the date of the dividend. In other words, if the dollar declined in value and the profits increased, the payment to shareholders would take these conditions into account and the dividends would be proportionately greater in number of dollars. This argument affected so strongly many investors, small and large, that for a while it looked as though fixed-yield securities would go abegging. However, the legal restrictions upon the investments of banks, insurance companies and other public and quasi-public institutions assured a sale of this class of securities so long as the number of dollars requiring investment continued to increase at such an

astonishing rate. The investment trust, which is comparatively new in this country, also came to the rescue and in order to present the appearance of stability found it expedient to mingle a fair percentage of bonds and high-grade preferred stock with other investments. Consequently, the bond market, whose end some prophets had foretold, did not perish with the decline of the dollar. The prices of nearly all good bonds were low for a time, but as a whole they held their ground pretty well and of late they have advanced substantially. The dollar has changed its course and is now going up hill again. It is still a long way from the point at which it stood in 1913, but it is appreciably nearer that point than it has been for several years. Some observers say that it begins to appear that the present depression in industry—extraordinary concomitant of a superabundance of money—may be near its end. If that be true there will be less money for security investment—it will be needed in manufacture, commerce and transportation.

**Dream of a Dollar  
Value**

If, then, we are at the beginning of a bear market, what is the accountant to do about it? Is he to shut his eyes to the facts and the probabilities, as our friend says he should? Let us suppose that the prediction which people are now daring to make will prove true. The dollar will return to the value of one hundred cents of 1913, perhaps. No one ventured to make such a prophecy a year or two ago, whatever one may have thought, but now it is not impossible to find people who believe in the ultimate resumption of ante-bellum values. Well, then, the dollar, let us say for the sake of argument, is to be worth 150 per cent. of its present value. What becomes of the theory that the common-stock investment is the best in the long run? In spite of everything that can be said or demonstrated, we still believe that over a period of many years the owner of a company is better off than the creditors. (This assumes, of course, a reasonable care in the choice of what one owns.) But when the conditions are as they seem to be today it is worth while to give a thought to the effect upon the comparative values of stocks and bonds. It is quite clear that if the dollar increases in value the cost of reproduction of plant and inventories will proportionately decrease and therefore it will involve a reduction in book values of these and practically all other assets. The loss on the required readjustment will have to be borne by the owner. The creditors can afford to regard the

matter with equanimity. It is less than nothing to them that the owner must sweat blood. He had his inning when the dollar was slipping down hill. Now it will be the turn of the bondholder to come into his own. In all probability the ascent of the dollar will be a long process, accompanied by much creaking and groaning. There will be suffering because of wage reduction ahead of cost-of-living reduction. There will be distress and hard times and all the other companions of radical change. No one knows whether the prediction of a rising dollar will be verified or not. It may be that the dollar of today is worth as much as the dollar of any future day will be. But the indications point to a great change within the next ten or fifteen years. Most people seem to believe that money values are to increase perceptibly, if not rapidly, in the near future. Whether the stock market holds or breaks, it is evidently in a hesitant mood, and this is due in great measure to the uncertainty about the values of money. The buoyant optimism of a year ago is gone.

**If the Dream Comes  
True**

All this is vitally significant to the accountant who knows his professional obligations. He will find in the uncertainty an additional inducement to look carefully into the nature of the investments of his clients. If the bond market is to rise while the stock market as a whole falls—which seems to be well within the range of the probable—is it not his duty to recommend that the investment of surplus funds, never larger than they are today, be wisely placed? It is obviously merely the duty of the auditor to make recommendations. The client is supposed to understand investment as well as anyone; but every accountant can cite instances of incomprehensible unwillingness to change the policy of investment even in the face of almost certain loss. The auditor will not be able to escape the adjustment of asset values as the dollar climbs—we are assuming, remember, that the dollar is to climb—and there will be many a bitter controversy between the accountant and the owner. Some of the very men who have stood staunchly for the theory of carrying assets at cost of reproduction new will be quite as firmly opposed to application of that theory when the tide turns. It is not often that one finds the man who will consent to write down as readily as he will consent to write up. But if our supposititious enlargement of dollar values comes to pass every business man, every owner of almost

anything for any length of time, must face the necessity of reappraising his holdings. The chief exception will be the man who has invested at such a time as the present in securities of sound companies producing a fixed number of dollars in the form of interest or preferred dividends. When the dollar is again worth what it was in 1913—again let us not forget that we assume such a miracle to be possible—such a man will have his principal intact (it may even have increased with an advance in bond-market prices which usually accompanies active demand) and his dollars of income, although the same in number as they are today, will then buy fifty per cent more than they can buy now. This is a vast subject and not entirely within the scope of a magazine whose field is accountancy rather than economics. But what we are attempting to make plain is that the whole financial structure of business and daily life may be on the verge of a tremendous alteration. Therefore, the accountant has an imperative obligation to see that his clients make ready for whatever may be ahead. If he does his utmost to that end he will escape just blame. If he does less, he will be unhappy.

**An Analogy in Ethics** Accountants who are interested in the subject of advertising—and what accountant is not interested either for or against professional advertisement?—will find much food for thought in a recent decision rendered by the supreme judicial court of Massachusetts. In the matter of Max Waldo Cohen, which was decided January 4th, Chief Justice Rugg delivered an opinion of the court which contains many significant expressions upon the whole question of advertising by professional men. The decision naturally deals with advertising by a lawyer, but its application is broad and includes by inference all professions as distinguished from trades. After citing the specific charges, the court said,

“This court as a part of its inherent jurisdiction is vested with authority to investigate the conduct of attorneys at law and to remove them from office absolutely or to suspend them for a stated period if found guilty of conduct in any respect unbecoming the high standard of propriety which ought to be maintained by all members of the legal profession. ‘The court, by reason of the necessary and inherent power vested in it to control the conduct of its own affairs and to maintain its own dignity, has a summary jurisdiction to deal with the alleged misconduct of an attorney.’ *Boston Bar Association v. Casey*, 211 Mass. 187, 192. *Boston Bar Association v. Greenwood*, 168 Mass. 169, 183. *O’Connell, petitioner*, 174 Mass. 253, 262. *Matter of Carver*, 224 Mass. 169, 172. Codes of legal ethics



adopted by bar associations of course have no statutory force. They are illuminating as showing views entertained by organizations of members of the bar concerning the tests of proper conduct for those charged with the important functions of attorneys admitted to practice within the courts. They are commonly recognized by bench and bar alike as establishing wholesome standards of professional action. It has long been a part of the ethics of lawyers that the solicitation of clientage by advertisements such as that here disclosed is contrary to sound practice. That has been the consensus of opinion manifested both by writers on legal ethics and by the standards maintained by the great mass of the profession. *Ethics of the Legal Profession*, by Orrin N. Carter, for many years a justice of the supreme court of Illinois, page 59. Fortunately, cases of this nature in the courts have been rare. There are, however, decisions on the point. *Matter of Newman*, 169 App. Div. (N. Y.) 638, 641. *Matter of Schwarz*, 175 App. Div. (N. Y.) 335, 343, 344. *Matter of Schwarz*, 195 App. Div. (N. Y.) 194; affirmed in 231 N. Y. 642. In the last cited case, concerning a canon of professional ethics like that in the present record, even in a dissenting opinion occurs this language at page 644: 'The profession has ever discountenanced as undignified and indecorous the conduct of the lawyer who blatantly advertises for business as those engaged in trade may do without exciting unfavorable criticism. Attorneys are officers belonging to courts and subject to their control and discipline. . . . Advertising or soliciting business is censurable as a form of self-laudation unbecoming the traditions of a high calling. The canon thus incorporates in the code of ethics an ideal standard of conduct which has been long and well recognized and upheld in theory both by bench and bar. The attorney who disregards the rule is properly subject to rebuke if not to disbarment.' In *People v. MacCabe*, 18 Colo. 186, 188, it was said: 'The ethics of the legal profession forbid that an attorney should advertise his talents or his skill as a shop-keeper advertises his wares.' The foundation on which this principle of conduct rests is that attorneys at law practise a profession; they do not conduct a trade. It is incompatible with the maintenance of correct professional standards to employ commercial methods of attracting patronage. Advertising such as that disclosed on this record is commonly designed to stimulate public thought and challenge popular attention to the end that the business of the advertiser may be increased. It has always been regarded as contrary to sound public policy for an attorney at law to foment litigation or to instigate law suits. Advertising for divorces has been almost universally condemned and frequently has been stamped as criminal by the enactment of statutes. See G. L. c. 208, S 43, and cases collected in 9 A. L. R. 1500. Solicitations and advertisements as to divorce differ in point of professional propriety little, if any, from that set forth in the case at bar."

Then follows a reference to the allegation that the respondent had advertised under a name not his own which apparently he had no right to use. This, however, is a point which is peculiar to the case in question. The court continued

"The arguments of the respondent founded chiefly upon freedom of the press seem to us quite wide of the mark. Conditions may limit the exercise of constitutional rights. *McAuliffe v. Mayor and Aldermen of New Bedford*, 155 Mass. 216, 220. Whatever may be his constitutional rights, a member of the bar must conduct himself as an officer of the court in such manner as not to offend against reasonable rules of propriety established by the court for the general welfare. Courts are solicitous for the rights of one duly admitted to practise law. *Matter of Sleeper*, 251 Mass. 6, 18, 19. They owe an equal duty to see to it that the public interests are conserved by observance on the part of lawyers of proprieties indicative of a due appreciation of their responsibilities to the court and to the community,

even though purely selfish tendencies and profit may be thereby restrained. No constitutional liberty of the attorney at law is infringed by the enforcement of the rule of professional conduct observed by the court in the case at bar.

“It follows that the requests for rulings, all based upon the theory that advertising for business by a member of the bar is lawful and does not justify disciplinary action by the courts, were refused rightly and that the order for temporary suspension from practice was warranted.”

There is, of course, a wide difference between advertising by a lawyer and, say, an accountant, in that the courts have jurisdiction over the conduct of attorneys-at-law and there is no supreme body which has complete jurisdiction over accountants. The most that can be done in the case of the latter, when offenses of this kind arise, is disciplinary action by such a body as the American Institute of Accountants. In spite of this difference, however, the question of advertising is one which hinges in all cases chiefly upon what is proper procedure for a professional man. Whether there is jurisdiction by any court or not, the canons of professional practice apply equally. In the court decision from which we have quoted, the word “accountant” might be substituted for attorney and what the court said with reference to lawyers might be regarded as an expression of opinion of the leaders of the accounting profession. What is not right for the lawyer is not right for the accountant.