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Editorial

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The JOURNAL of ACCOUNTANCY

Official Organ of the AMERICAN INSTITUTE OF ACCOUNTANTS

A. P. RICHARDSON, *Editor*

EDITORIAL

Cost of Waiting

Cost accountants often say that of all the factors in the overhead expense of an industrial establishment the most difficult to distribute fairly is the idle time. If it could only be prevented what a blessing it would be to the company and incidentally to the perplexed analyst—or should one say synthesist?—of costs. But it is not solely in the realm of industry that wasted time is a burden. Economists and many who think themselves economists—which is not always the same thing—are much concerned about the whole vast problem of loss of time and efficiency. By the way, that word “efficiency” seems to be doing something that the sports writers say can not be done. It is coming back to a former eminence. There was a time not long ago when the word had been so badly mauled and mishandled that it could not be permitted in decent society. When it was used at all it was introduced or followed by an apology. But of late it seems to be coming back slowly and it may be that within the next few years it will be entirely restored. It might serve a purpose if not over-worked. Now this question of loss of time and efficiency will ever be with us, but that is not to admit that it must always be the vexatious thing which it is today. There are several ways by which waste is being reduced without injury to anyone but with immense profit to many. There is one annoying loss, however, which is not often mentioned in print and is generally glossed over in speech. Yet this loss is really colossal in the aggregate and it could be avoided almost entirely. To see the actual operation of the wasting away of time let the student of economy take up a post of observation in the entrance hall of any club during the hour between noon and one o'clock of any business day. He should sit where he can overhear the salutations of the men or

women who pass. (In the sacred cause of science eavesdropping is forgivable.) Our observer will find that at least seventy per cent. of the people will make or accept an excuse for being late.

**Statistics of
Waiting**

A careful statistical survey based upon the personal experiences of a good many victims of what we may call appointment-disregard reveals that the average length of waiting for late comers is about ten minutes. In ten per cent. of all cases of appointment-disregard the waste is fifteen minutes. In five per cent. the delay is half an hour or longer. We offer these statistics without fear. Like many other economic assertions they will stand, because adverse evidence is lacking. It is perhaps safe to assume that the man who is at the head of a company or of a department makes every year one hundred engagements to take lunch with other men with whom he has affairs to discuss. For thirty-five of these appointments he is on time and is kept waiting. For a like number he is late. Thirty of the appointments are kept promptly. So we see that even on this conservative estimate the business man wastes about a business day of other men's time and other men rob him likewise—all because of this almost wholly avoidable nuisance of appointment-disregard. Of course when more than two persons are involved the waste is multiplied proportionately. We understand that most of the treatises on etiquette express approval of promptness in the cause of common courtesy, but perhaps it is not appropriate to drag noblesse into an essay on pure economy. Suffice it to say without comment that the belated arrival is not always that of the guest. Hosts themselves have sinned. Suppose for the sake of argument we add to the sum of appointment-disregard the total of time spent waiting for meetings of directors or committees to begin. The measurement of that waste can be made by guess only, but no person who has suffered from the delinquencies of fellow directors or committeemen will consent to place the amount at less than another business day each year. It is customary, as has been said, to smile with the best possible grace and protest to the culprit that the mere loss of half an hour is nothing at all, sir, nothing at all. If the truth were told the meeting might not be harmonious but the effect might be salutary. After all, it isn't flattering to one's self-respect to be kept waiting while someone

else forgets or neglects to live up to a promise to be present at a certain place at a certain time. Some of our economists are sometimes hard pressed to find topics for consideration. Here is one ready to their hand and they have overlooked it. Why not have a treatise in the best manner on the subject of appointment-disregard, which is the worst manners?

**Coöperation with
Bankers**

The *Bulletin* of the American Institute of Accountants for August, 1928, contained an interesting reference to the efforts which are being made by investment bankers and accountants to bring about clear understanding of the financial statements of companies whose securities are offered for public sale. For many years it has been generally admitted that the statements or pseudo-statements issued in conjunction with the flotation of stocks and bonds have not been invariably explicit. Recently the need for reform has been accentuated by the large increase in the number and variety of securities displayed for sale. The investors of this country are steadily growing in geographical distribution, quantity and perhaps in quality—although one is not positive about the last. Consequently it is imperative that the information supplied to prospective purchasers be full and frank. The fact that the investor has often had to grope in the darkness heretofore is lamentable, but the lack of comprehensive information is not entirely the fault of any one group of men. In part the blame attaches to the investor himself who has not been properly inquisitive. In part the investment banker is responsible because he has been content often to give no more specific detail than sale of the securities demanded. In part the accountant is at fault because he has not always insisted as he should have insisted that the truth be told so plainly that the simplest buyer could have no valid excuse for saying that he had bought in ignorance. It would be invidious and it would not contribute anything to the cause of harmony and reform to attempt to designate the most blameworthy of these three. It is enough to say that all are responsible and that the movement toward reform is begun. For a long time, as readers of this magazine must know, there has been most effective coöperation between a committee of the Institute and a committee of the Robert Morris Associates. Almost innumerable questions of procedure have been referred by one committee to the other and the result has been helpful

to everyone concerned. Bankers have been induced to adopt more rigorous and therefore beneficent rules for the extension of credit, and accountants have been able to understand better than before the desires of the credit grantor and so to make many improvements in the manner and method of preparing statements to be used as the basis of application for credit.

**Accountants and
Investment Bankers**

Now the Investment Bankers' Association has appointed a committee to work with a committee of the American Institute of Accountants and there is every reason to believe that benefit will accrue to both banker and accountant, but more important still to the public. The credit banker and the investment banker are often as far apart as the poles in their operations. Generally the former is involved in a personal relationship with the borrower and when loss occurs it falls almost exclusively on the bank and its shareholders. The banker who underwrites or buys securities and offers them to the public is in a totally different position. When loss follows his transactions it falls chiefly upon the ultimate purchaser. An investment banker might—it is conceivable—take charge of the flotation of a ten-million-dollar bond issue which subsequently became absolutely valueless, and yet he, the banker, might not suffer the loss of a sou marquis. In this the investment banker is in a case somewhat similar to that of the accountant. He and the accountant assist in the preparation of securities which are to be placed on sale, and so long as their commissions or fees are collected they may escape all financial loss or misfortune. On the other hand the investment banker and the accountant have a tremendous obligation to the public. They must adhere so closely to the truth, they must exercise such peculiar diligence and discretion, they must lend their good names so reluctantly to any published statement of accounts that when their names do appear it shall be proof complete that the statement is full, plain and without ambiguity so far as it is humanly possible to make it. It is no light load to carry, this liability to good faith and inerrant analysis, but it must be borne by those who would play fair with the public. The present approach to better coöperation and the promise of an earnest attempt to tell the potential investor everything that he should hear are of happy augury. The spirit of coöperation which this incident reveals is in pleasant contrast

to the bumptious and ill considered vituperation upon which it has seemed necessary to comment recently.

**An Invaluable Aid
to Accountancy**

Publication of a second supplement to the *Accountants' Index* by the American Institute of Accountants is an event of no little importance to the whole profession of accountancy and to all persons whose interests or activities bring them into touch with the literature of accounts. The original edition of this work was published in 1920 and covered the entire field of accounting literature in print in 1912 and published after that date. That first volume consisted of more than fifteen hundred pages. The supplement which appeared in 1923 brought the record up to the end of June of that year. It contained 599 pages. Now the second supplement or third edition carries the review up to the beginning of the present year, 1928. It contains 789 pages. The three editions present a total of more than 2800 pages. These figures are significant of the enormous growth of writing on subjects related to accounting. In the present literarily fecund era it is nothing extraordinary to witness rapid increase in any department of literature, but it is rather impressive to find that a science and an art which were almost unknown fifty years ago are now the parents of so vast a progeny. It is a great and useful task which the Institute has undertaken in the compilation, editing and publication of these three volumes of reference. Before their appearance there was nothing to guide the student, the practitioner or the casual seeker to what had been written on accounting subjects. One knew that there must be a mass of written matter on many phases of these subjects but it was impossible to discover it all. The *Index* and its supplements provide the key to the treasury of professional literature, and the accountant's office which lacks the assistance which these volumes offer is losing much in time and effectiveness. In the offices of the most active firms the *Index* and its supplements are in daily use. Indeed, when one has become accustomed to the prompt and comprehensive service which a reference work of this kind renders it is difficult to do without it. The new edition reflects credit upon the present librarian of the Institute and upon the entire staff of the library. The endowment fund of the Institute which makes possible the production of such a really monumental work without hope of recovering the actual

cost has never been employed to better purpose than in this provision of a complete reference to what is written for the benefit of those who must be in touch with the thought and accomplishments of the profession and practice of accountancy.

**Advertised by Our
Friends**

It has become an axiom that professional men must not and in fact do not advertise their professional attainments by written or spoken word. Some of the men who make up the personnel of the professions no doubt look back with longing to the time when it was not considered improper to ascend the rostrum and announce one's peculiar merits; but for the most part the practitioner is content to let others praise him. The trouble which afflicts him is that the others who should do the praising are so reticent or conservative that the public does not hear the voice of commendation. However, now and then there is a sudden and wholly unexpected testimonial to what a profession has done or is doing. As an example, we have before us a clipping from a New York daily paper in which a fairly prominent bank extols the accomplishments of the public accountant. Naturally no accountant would venture to claim for himself or his vocation one half the virtue which this advertisement attributes to accountancy. It would be repugnant to the strict modesty of any practitioner to say such things about his abilities. But if a bank in the course of a campaign of educational advertising finds reason to laud him the accountant being still human may say "tush! tush!" but he will smile contentedly nevertheless. Here is the gist of the advertisement:

"It would be difficult to picture the chaos which would have resulted if modern accountancy had not kept pace with the expansion of big business. The accounting profession has rendered distinguished service in analyzing the true condition of affairs in every line of industry. It has stabilized business by insisting upon conservative valuations, adequate depreciation, amortization and sinking funds. It has enabled manufacturers to eliminate wasteful methods by installing ingenious cost systems.

"Accounting as a business includes many noted firms, whose personnel is in touch with the leaders of commerce and industry. Sound banking has closely coöperated with accounting in guiding business along conservatively progressive routes."

We do not know why this pleasant and veracious statement of the case is made by the trust company over whose name it appears. Probably it is merely the irresistible urge to tell other people of a great truth. Whatever may be the motive, the advertisement

itself is beneficent and it is striking evidence of the increasing friendliness and understanding between bankers and the profession with which banking is most intimately concerned.

**Bids for Audits
are Damned**

Readers of THE JOURNAL OF ACCOUNTANCY may remember that the pages of this magazine have occasionally been given up to discussion of the question of fees for accounting services. Quite possibly it has seemed that this question has been accorded a great deal more space than its importance merits. But we feel strongly that while the basis of professional fees remains as it too often is at present the truly professional nature of accountancy will not be universally recognized. So we return again and again to the attack. This month, however, the argument is to be inducted from a new source. The presentation is terse, unanswerable, complete. We commend to the consideration of all who may be concerned the following letter by an accountant in the southwest addressed to the board of education of a large and prominent city. It was printed in a recent issue of *The Texas Accountant*, a publication of the Texas Society of Certified Public Accountants:

April 16, 1928.

"To the Honorable Board of Education,
San Antonio, Texas:

"I have been duly advised that your honorable board will receive bids for an audit of the records and books of the San Antonio Independent School District. I should like to be permitted to say just a word on the matter of contracting for such an audit on a competitive basis.

"It is generally understood among representative men of this profession that participation in competitive bidding on auditing involves a certain degree of professional dishonesty. It is supposed that in contracting for an audit of this character some element of professional skill is desired other than the mechanical routine of verifying the mathematical accuracy of the figures that may appear on the records. The time involved in that phase of the audit requiring professional skill cannot be anticipated in advance of an examination.

"There are many legal authorities on this question, among which is the case of *Hunter vs. Whittaker*, 202 S. W. 1096, decided by the court of civil appeals of this state. Judge W. S. Fly, in writing the decision in this case, said:

'To hold that the act would require that the service of a man belonging to a profession, such as that of the law, of medicine, of teaching, civil engineering or architecture, should be obtained by a county only through competitive bidding would give a ridiculous meaning to the act and require an absurdity.'

"This rule has a particular application in the matter of an employment for an audit, in addition to the force of the general rule that to obtain professional services by competitive bidding 'would give a ridiculous meaning to the law and require an absurdity.'

"Suppose there is present the condition that requires a longer time for making of an audit, by reason of a lack of efficiency or fidelity with which the

records are kept, or that extended investigation is required as to the facts surrounding a given expenditure, or any other reason—then the additional expense of conducting the audit by reason of such conditions should be borne by the school district and not the accountant. If the records have been efficiently kept, monies properly accounted for and expenditures properly authorized and made for legitimate purposes, then the school district should get the benefit of the reduced cost and not the accountant. Competitive bids on the auditing reverses this order, and therefore violates the better standards of business practice and procedure.

“The best interests of the district are further defeated in contracting for an audit on a competitive basis because of the tendency to exclude the more reputable firms, leaving the choice between those who are willing to violate the accepted standards of ethical practice.

“I understand that the invitation to bid did not necessarily imply an invitation to write this letter, but I am sure you will pardon me for having an interest in maintaining the standards and ethics of the profession which I have chosen to follow, and I hope, some degree of interest in the schools.

Respectfully,

W. M. AIKMAN, C. P. A.”

Comment upon this letter would be wholly superfluous. The case has never been better put.

The Quiet Summer of 1928

There has been a good deal of complaining during the last few months because, it is said, the demand for accountants' services has been almost negligible. A firm here or there reports that the summer has been unusually active, but the profession as a whole seems to have been passing through the doldrums since the spring. Apparently the conditions in all parts of the country are much the same. From these facts it is argued that accountancy has fallen on evil days and we hear of pessimists who foretell all manner of misfortune for the coming year. It is alleged that the profession has become overcrowded, that only the strong can survive in the competition—think of it, if you can, competition in a profession—and that wise men will seek a foothold elsewhere. But is it as bad as that? Suppose one admits that it has been a restful summer, suppose the fees have not kept pace with the vacation expenses—what then? There is a winter coming and it will bring with it all the hurry and turmoil which every staff member dreads. There will be the usual nerve-wracking tension, and the accountant will then remember with yearning the quietude of August or September. Fees will be earned and bank accounts will increase, it is hoped. The average of the twelve months will be about what was expected. Some people believe that waves of depression whether they be mental or material, should not be mentioned in polite society lest their effect be increased, but it does not appear that any good purpose can be served by ignoring the truth. It is true

that there has been much more gloom in accountants' offices this year than is customary. Probably there has been a dearth of engagements. But on the other hand it should be set down that business in an election year is generally nervous, and beyond that it must not be forgotten that prosperity runs on undulating lines. It is the nature of prosperity to do so. Then, too, there are many accountants and other professional men who have not yet become reconciled to the inevitable resumption of steady business after the fitful fever of war and of the years which succeed war. It takes ten years or so to settle down after a world in hysteria, and ten years have not yet passed since the guns ceased fire. Perhaps the summer of 1928 was more like the summer of 1912 or 1913 than some of us thought it.

**Vicarious
Solicitation**

There are many ways of attempting to increase one's practice, nearly all of which are open to objection for one reason or another. Some, however, are novel and therefore momentarily interesting. For example, we have before us a letter written by a business house to another business house suggesting to the latter that if really good and efficient accounting be desired Mr. John Doe of Union Square, New York, should be engaged. The writer then goes on to explain that John Doe has been acting as auditor of the house of which the writer is representative and that Mr. Doe has some time to spare which the writer believes might be devoted to the protection and advancement of business house No. 2. The writer promises on behalf of Mr. Doe that a conference can be arranged at an early and convenient time. This is delightful. It indicates to all who read that there is the closest bond of friendship between the auditor and the audited. The relationship seems to be almost filial. What a wonderful world it would be for accountants if all clients were similarly magnanimous. The proposal has such tremendous possibilities that one is almost overwhelmed by the mere thought of it. But then that ancient devil of doubt comes along and asks the age-old question, Why? Well, we do not know. Perhaps the letter of vicarious solicitation is merely an outburst of altruism by a satisfied client. Perhaps it is written to comply with the promptings of an aspiring practitioner. It really makes little difference what the motive may have been. We are interested solely because it seems to be something new under the sun.