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Editorial

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A. P. RICHARDSON, *Editor*

EDITORIAL

The Del Monte Meeting

The next annual meeting of the American Institute of Accountants is one that will almost certainly be well attended, and this for several reasons. It is to be the fortieth anniversary of the formation of the American Association of Public Accountants (predecessor of the Institute) the first organization of professional accountants having anything like a national scope. It is to be held at one of the most delightful places in America. Every American knows, if he reads advertisements at all, that he should see America first, or, if not first, at least now. The number of members and guests attending will include many of the active men of the profession and the long journey which those from the east will be required to undertake will be made in good and pleasant company. Those rare accountants who are addicted to golf will have wonderful opportunities to indulge their desires. Those who love scenery will see the best the country has to offer. Those very few to whom the question of expense is important need not hesitate—the cost of the trip is not excessive, all things considered. There are probably many other equally good reasons for going to the Del Monte meeting and the committee which has it in charge to encourage attendance will doubtless think of some of these other inducements. If, as now appears possible, the eastern members can visit on the way out the accountants of Canada, who will assemble at Winnipeg, that will not fail to attract. In a word, leaving out of consideration the importance of attending every annual meeting and participating in the business and professional fellowship there, this meeting of 1927 has an appeal that few, we hope, can resist.

Auditors as Scapegoats for Directors

A good deal of interest has been expressed by the press in the action of the shareholders of Marconi's Wireless Telegraph Co., Ltd., at a meeting held in London on March 15th. The meeting was characterized by a good deal of bitterness, which is perhaps not difficult to understand because the report which the directors presented to shareholders indicated that the company had to face serious capital losses. The history of the wireless company has been rather checkered and there have been times when it has been almost impossible even for the auditors to form an opinion as to the actual value of the company's assets. The present management of the corporation disclaims responsibility for investments which have not been profitable and emphasizes the fact that it has departed from the policies of its predecessors. The extraordinary feature of the meeting was the fact that in spite of the perfectly clear confession that the auditors had not in any way been responsible for the position of affairs, that in fact they had done everything that had been done to bring to light the actual conditions, the shareholders failed to accept the recommendation of the directors and to reëlect a firm of auditors which had been associated with the company for many years. The meeting then elected two firms, one of which had previously had nothing whatever to do with the company. This is so contrary to British practice that it is noteworthy. It is the general custom in Great Britain to reëlect, if the auditors are willing to be reëlected, those who have served the company year after year. The only cause which is regarded as sufficient to justify a change is failure to perform accounting services in a satisfactory manner. In this case, however, the shareholders seem to have been looking for a whipping boy and to have selected the accountants as the butt of attack. Their action seems to have been dictated by something approaching an unreasoning desire to hit someone who would not hit back. The retiring auditors, seeing the sentiment of the meeting, did the only thing that could be done and withdrew their names before election. It will be interesting to see what effect this unprecedented action of the wireless company may have on the shareholders of other corporations. The system of continuity in auditorship is so well established, however, that it does not seem probable that there will be any change in common practice. It would be most regrettable if shareholders in corporations generally should depart so radically from the principles of sound business procedure.

This Naughty Profession

Elsewhere in this issue of THE JOURNAL OF ACCOUNTANCY will be found a letter from Carl B. Robbins taking serious exception to a review by F. W. Thornton of a book by

Mr. Robbins entitled *No-par Stock.* When this letter was received we asked Mr. Thornton to give us a brief expression of his thoughts on the subject which the letter discusses. And thus we are able to present both sides of the question at the same time—always a desirable procedure when practicable. The task of the book reviewer is never an unalloyed and pure pleasure. There are three factors always to be borne in mind: first, of course, comes the obligation to tell the truth; second, there is the duty to the reader who may be guided or misguided by the reviewer's comments; third, the feelings of an author must be considered if that can be done without losing sight of the other factors. Few authors are satisfied that the reviewer is fair unless the review is an encomium. It is not in nature to rejoice in adverse criticism. But it is one of the penalties of authorship that the child of one's brain shall be battered about in the school of critics, and most men of letters are willing to let the infant take its chances among the rough fellows of the press. One of the least lovely of Lord Byron's failings was his sensitiveness to criticism. If he had been a good sportsman we should like him better. Now it seems to us that Mr. Robbins is somewhat unhappily offended and not altogether with good cause. Mr. Thornton was not in agreement with much that the book contained and he said so with what was perhaps a slight disregard of the third factor which we have mentioned, but surely he was and is entitled to differ with the author—the author evidently differs with Mr. Thornton. In the ordinary way we should publish this correspondence and let the reader decide for himself who had the better of the tilting. But it happens that the acerbity of the author's reply induced a little further search of the text itself. A great point is made of the distinction between innocence and ignorance and it must be admitted that when one digs up the roots of these two words there is a difference—they are not synonymous. In current practice, however, they are coming somewhat nearer together and the precession of the equinoxes will not be checked if the words are confused. A glance at the book reveals what we might have misconstrued as an attack on accountants, but we now have it on Mr. Robbins' own authority that he has the interests of the profession at heart. We find that the remarks to which the reviewer took exception were not the only instance of this apparently inimical sentiment. Turning a leaf we come to page 142 where the position of honor is given to this splendid manifestation of the cardiac propinquity of the writer's interest in the profession: "It is commonplace among the profession that balance-sheets must be designed to please the client, but too often this is accepted as final." Really, if an accountant were not the most patient of souls he might be expected to reply, "Well, well, where did you obtain this commonplace?" It would be quite wrong to treat the matter in that way, it now appears, because Mr. Robbins has disclaimed enmity and malice. There may be accountants, there are indeed, who would sway in the wind of a client's desires, especially if there were only one client—but to say that this prostration is common is ridiculous. The author could not have intended his dictum to be so interpreted. There is some occult friendliness about the words which we did not discover unaided. Perhaps the author feels that chastisement is good for the soul, if not pleasant for the body, of this rapidly growing child, accountancy, and so he lays upon us the might of his uplifted arm. He may even be saying to us, "This pains me more than you, my son." So in the long run when the soreness shall have passed away and we can again sit down in comfort we shall be all the better for the chastening. But the love which he bears the profession is possibly a little too well covered.

> "Perhaps it was right to dissemble your love—
> But why did you kick me down stairs?"

Institute's Trial Board

The council of the American Institute of Accountants sitting as a trial board at Washington, D. C., on Monday, April 11, 1927, heard and considered charges of discreditable conduct which had been preferred against a member of the Institute. The case involved the inclusion in a tax return of a valuation of assets made by an appraisal company. This valuation was subsequently found to be erroneous and the government had held that the accountant had been negligent in not verifying the valuation before accepting it. The accountant presented evidence that the audit had been performed by a subordinate and that in presenting the valuation the attention of the income-tax unit had been drawn to the fact that the valuation of certain alleged assets had been based upon information supplied but not verified. It appeared to the trial board that the accountant had not been guilty of negligence and, while greater care might have been taken, the circumstances did not justify a finding that the accountant had been guilty of a discreditable act. The defendant was acquitted and it was resolved that in the report of the case for publication in THE JOURNAL OF ACCOUNTANCY, as required by the by-laws of the Institute, the name of the defendant should not appear.

Responsibility for Inventory

Of certain controversies among accountants the end is not yet. For example, the old differences of opinion as to the auditor's responsibility for the physical inventories of an industrial or commercial client will not be settled while there are accountants who believe that they can do everything and others who believe that they should confine themselves to labors which they are competent to perform. Unfortunately there are many business men and an even greater percentage of bankers who would like to make the auditors responsible for the accuracy of inventory count and valuation, and it is not astonishing, therefore, that there should be a number of accountants who venture into this precarious field. Naturally there are some small concerns in which an accountant or anyone else with reasonable intelligence could count accurately and value fairly the entire stock-in-trade. In the greater number of cases, however, an accountant can not honestly accept responsibility for the taking of inventory without involving an expenditure out of all proportion to the benefits to be derived. It is undoubtedly true, however, that the auditor should have knowledge of the method of taking inventory and the basis upon which it is taken and should be satisfied that the procedure is reasonable and surrounded with proper precautions. A correspondent after reading the editorial comment which appeared in THE JOURNAL OF ACCOUNTANCY for April, 1927, writes us:

Editor, The Journal of Accountancy

DEAR SIR: I have read your editorial in the April, 1927, issue of THE JOURNAL OF ACCOUNTANCY and the quotation from an address by Mr. May.

I believe that an auditor should supervise and be present at inventory-taking whenever and wherever possible. Inventory-taking or being present at inventory-taking is just as practicable as verifying accounts receivable and payable by direct communication.

By careful auditing an auditor could ascertain within reason the accuracy of the accounts receivable and payable or any other asset or liability. But he wants to verify the figures with the facts, therefore the direct correspondence and other means of verification. Experienced auditors know, and have found it to be so from answers received, that there are differences and other controversies. The same applies to inventories.

I was asked by a manufacturer not to qualify my certificate as to inventories. I told him I would give an unqualified certificate providing he would allow me to be present at inventory-taking and to observe and examine certain pieces of goods used by him. The stock clerks took inventory (to which I emphatically objected) of nearly 1000 yards of silks of one number, which were made up of small pieces ranging from three-fourths to two yards each, left-overs from large bolts of silk. These remnants would scarcely bring more than 25 per cent. of original cost. Furthermore, this silk could not be used for manufacturing. I asked that these items be stricken from the inventory sheets at cost. Then again I observed during the inventory-taking quite a quantity of obsolete materials and samples. Now had I not been present at the inventory-taking I would not have known of these conditions. This inventory took a decided drop in comparison with former years.

Auditors who make it a practice wherever possible to observe and supervise inventory-taking would become in time skilled in knowing values and methods of inventory-taking and beside verifying the actual facts with book figures would be giving the public a more accurate, efficient and impartial statement.

Yours truly,

Herman Nichols.

New York, April 22, 1927.

Auditor's Position Should be Definite

There is no doubt that an auditor who follows such a procedure as that suggested by Mr. Nichols would know more about the inventory than if he were not present when it was taken, but that does not mean that he would know enough to warrant him in assuming full responsibility for it. There would be grave danger in the uncertainty as to the additional degree of responsibility which he would assume by reason of the increased knowledge which presence at the taking of inventory might be supposed to give him. Most accountants feel that unless an auditor does so much of the actual work that he can accept full responsibility for the correctness of inventory it is far better to avoid putting himself in a position where he can be charged with an indeterminate measure of responsibility. In other words, except in those very rare instances in which the inventory can be taken by the accountant himself or his assistants it seems to be unwise that he should participate or even appear to participate and thus allow others to place upon him a burden which it is not his to bear. A few years ago there was more difference of opinion as to the responsibility for inventories than there is today. Now there is in most substantial corporations a fair system of inventory record, and, unless there is something unreasonable in the statistics given to the auditor, he may in nearly all cases accept them as accurate; but of course in his certificate he should repudiate responsibility for the inventories if there is the slightest danger that any one will attribute such responsibility to him in the absence of disclaimer.

Louise S. Miltimore

The *Bulletin* of the Institute published on May 16th contained announcement of the death of Louise S. Miltimore, librarian of the American Institute of Accountants. This announcement will bring a sense of loss to all accountants and also to the far-spread fraternity of librarians. Shortly after the Institute was formed an endowment fund was created under which there was built up a library which is certainly the most extensive collection of accounting works in this country—possibly it is not excelled abroad. Miss Miltimore was in charge of the constructive work and under her direction, with approval of the special committee on administration of endowment, the Institute acquired by gift and purchase the reference and other works which have served so useful a purpose to members of the Institute and to many students and accountants who are not members. A monumental work, the *Accountants' Index* and its *Supplement* were edited entirely by Miss Miltimore, and this accomplishment alone would entitle her to a place of honor in the annals of American accountancy. An infinite number of questions upon accounting and related subjects passes through the library every year and it is very largely to the directive ability of the librarian that the success of this exchange of opinions is due. Miss Miltimore loved her work and gave without stint of her time and talents even at the expense of health. It was impossible to induce her to relinquish her activities, even for a vacation, for her enthusiasm was such that she took no count of the length of the business day. Her death followed an illness of several months. We extend to her family sincere expressions of grief and sympathy.

Natural Business Year

The annual meetings of the Chamber of Commerce of the United States of America are growing in importance and in numerical attendance. It seems that the business men of the country are looking more and more to the national chamber of commerce as the agency through which they can bring to the attention of government and public the questions which they consider vital to the country's prosperity. At the last meeting, which was held in Washington during the first week in May, there were several important resolutions calling for simplification and other reform of the federal tax laws. These resolutions were accepted and passed unanimously, and it is hoped that their effect upon the congressional investigating committee will be conclusive. But this great chamber of commerce, which is pledged to the progress of business and all that makes for the advancement of America, occasionally relapses into incomprehensible conservatism. For example, at the recent meeting there was brought forward by the Chicago Association of Commerce a resolution to the effect that the chamber should go on record as encouraging the adoption of the natural business year in all businesses which have an ebb of activity that makes one period more suitable than any other in the year for the closing of books. The Chicago resolution called for a survey of the principal industries of the country preparatory to the presentation of a definite programme to convert business men from the unnatural adoption of December 31st as the closing time. The peculiar reluctance of business men to change their fiscal years to coincide with their individual business exigencies does not seem American. When the excise tax was enacted in 1909 many companies which had followed the natural business year changed over to the calendar year in order to conform to the requirements of the law, but when, in a subsequent enactment, the permission to adopt a natural year was granted most of them failed to take advantage of the opportunity to simplify their labors. One of the reasons which seems to have interfered largely with the general adoption of the change which has been urged time and again by accountants is that some people believe that the accountants themselves have some dark ulterior motive in supporting the movement for reform. It is true that accountants would benefit enormously by spreading their work over the twelve months, but business men would profit equally and the government taxing departments, both federal and state, would be assisted and their labors accelerated. That accountants would benefit incidentally does not seem a very sound reason for objecting to reform. This resolution when brought before the resolutions committee of the chamber of commerce was referred to the directors without recommendation, which is probably a polite and effective way of putting the resolution to death.

One can not help wondering why the Chamber of Commerce of the United States of America, which embraces in its membership many of the most progressive business men, should have failed to take action on so important a matter. Perhaps the Chicago Association of Commerce will return to the attack next year, and if so it is to be hoped that the sponsors will meet with the success which their effort deserves. So far no one has been able to adduce any good and sufficient reason for adhering to the present ridiculous perversion of the business year.

Accountants and Bankers

The Northern Ohio chapter of the American Institute of Accountants and the Cleveland chapter of the Robert Morris Associates held a joint meeting in Cleveland on April 25th, when each one told the other frankly of his short-comings. There was the utmost good fellowship and there was a lack of that air of superiority and condescension which sometimes has interfered with progress. One of the hopeful results of the meeting was the decision to hold each year at least two joint meetings when there will be discussion of questions arising upon the accountant's reports or the banker's methods. This is a local development of the national effort which has been extremely productive in bringing about a better understanding between the bankers represented by the Robert Morris Associates and accountants represented by the American Institute of Accountants. There is really very little difference in the ideals which both classes of men hold, but there is an astonishing readiness in each class to blame the other for the things which it has failed to do. The banker would like to be able to place all responsibility for a bad credit risk upon the accountant and the accountant would like to replace the burden with interest upon the banker's shoulders—at least it is so in many cases. It is obviously absurd for the banker or the accountant to say that because the other is a party to the negotiations for credit extension he himself is relieved of all obligation to satisfy himself of the correctness of financial reports. If the two closely related professions can walk and talk together there should be complete understanding, and they will arrive together at the journey's end, which is in the delectable mountains of honest and continuing coöperation.