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American Institute of Accountants

REPORT OF THE SECRETARY*

1916-1926

BY A. P. RICHARDSON

September, 1926, completes the first decade in the history of the American Institute of Accountants. The American Association of Public Accountants, established in 1887, was succeeded and absorbed on September 19, 1916, by the new organization. At this first decennial anniversary of the formation of the Institute it is appropriate that there should be a brief synoptic record of the things which have been done and the changes which have taken place. Such a report should not attempt to review the great development of accountancy as a whole but rather the accomplishments of the Institute which have been chiefly instrumental in making possible the profession's progress and present prestige. The following summary of the principal labors and functions of the Institute is accordingly presented for the consideration of the council.

EARLY HISTORY

The American Association of Public Accountants was originally a society of individual and direct membership, but its functions were largely social and, except in one direction, its effect upon the general public was not far reaching. In 1896 its members were responsible for the introduction of the first legislative measure designed to regulate the professional practice of accountancy. This was a bill providing for the certification of accountants under the legal designation, "certified public accountants," in the state of New York. The bill became law and thus began a movement for certification which has since spread to every state, the District of Columbia and three of the territories of the United States. In 1904 an international congress of accountants was held at St. Louis, Missouri. There were representatives of the leading American, British and Canadian societies and of the principal state societies which had sprung up with the spread of C. P. A. legislation. The American Association and the Federation of Societies of Public Accountants

*Presented at the annual meeting of the American Institute of Accountants, September 21, 1926.

were the only American organizations of national scope and it was suggested that they should be amalgamated as there was practically no difference between their purposes. This idea was carried out in 1905 when the American Association absorbed the other organization and so amended its constitution and by-laws as to admit, with certain extremely liberal limitations, the members and associates of state societies to similar classes of membership in the American Association. From 1905 to 1915 the association developed in numbers and influence; but it suffered from some inherent weaknesses which prevented the full extent of progress which, without them, would have been possible. The chief difficulties were the practical impossibility of inflicting discipline upon a membership derived and continued through local and independent societies; the divided allegiance of delegates appointed by state societies to a national organization; the widely differing standards of state laws and regulations, which made membership in the association a thing of varying significance and the whole no stronger than the weakest part; and some other less serious conditions which are no longer memorable. The rapidly increasing number of state C. P. A. laws, with no approach to uniformity among them, and the wide variety in administration of these laws threatened to destroy utterly the meaning of the C. P. A. certificate. Some states had good laws badly administered; some, good laws well administered; some, weak laws and weaker administrations; and some, weak laws whose evil was partly offset by honest administration. In all states the regulation of the profession was subject directly or indirectly to the whim and uncertainty of political influence.

FORMATION OF AMERICAN INSTITUTE OF ACCOUNTANTS

For these reasons and a few others of minor importance, which have not been mentioned, the American Association in 1915 appointed a special committee to investigate the conditions and, if it seemed desirable, to report a plan for reorganization which would overcome the difficulties confronting the profession and prevent the further expansion of the chaos which menaced the practice and its regulation. That committee consisted of J. E. Sterrett, W. Sanders Davies, Carl H. Nau, Waldron H. Rand and Elijah W. Sells, with the president, J. Porter Joplin, *ex officio*. The committee reported that it had reviewed the history and existing conditions of the profession with great care, and it recom-

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mended that a new organization be created to which the membership of the association could be transferred by individual action of each member within a certain limit of time. The committee recommended that the new organization should be incorporated in the District of Columbia; its membership, after the charter members, should be admitted only by examination conducted by its own board of examiners; each member should be directly amenable to discipline for unprofessional conduct; and no control or influence, overt or secret, should be exerted upon it by any political authority whatsoever. The committee suggested the incorporation of the Institute of Accountants in the United States of America, which was consummated in May, 1916. In September of the same year the American Association of Public Accountants by unanimous action approved the report of the committee. The Institute thereafter carried on the work of the national organization, although the charter of the American Association has never been relinquished. The name of the new society was changed shortly after to "American Institute of Accountants." This in brief is the record of professional organization in America prior to the beginning of the Institute's activity.

PURPOSES OF THE INSTITUTE

The first article of the constitution of the Institute sets forth the principal purposes in the following words:

Section 1. The name of this organization shall be the American Institute of Accountants. Its objects shall be to unite the accountancy profession of the United States; to promote and maintain high professional and moral standards; to safeguard the interests of public accountants; to advance the science of accountancy; to develop and improve accountancy education; to provide for the examination of candidates for membership, and to encourage cordial intercourse among accountants practising in the United States of America.

In reviewing the ten years now ending it is of interest to consider whether these purposes have been achieved or not.

RESOURCES

The resources, financial and intellectual, of an organization are not necessarily the measure of accomplishment, because it is possible to conceive of great supplies of wealth and mind lying dormant, but it is undeniable that resources are needed as a foundation if there is to be any substantial building. Consequently, the financial statistics which follow are important. The

question of intellectual resources is answered by the facts which will appear later in this report. In 1916 the balance-sheet of the American Association showed total surplus of \$11,605.74. This was the amount turned over to the new Institute. The office was a small room at 55 Liberty Street, and the secretary's staff consisted of one stenographer. At the end of August, 1926, the resources of the Institute and its allied activities constitute a grand total of \$297,215.26. The chief factor in this sum is the endowment fund with its related corporation, the American Institute of Accountants Foundation. The Institute owns and occupies a five-story building at 135 Cedar Street, New York. The cost of the building, with improvements which have been made since purchase, is \$125,660.44. The only encumbrance upon the ownership of the building is a bond issue, originally amounting to \$90,000, but now curtailed to \$75,000, and being reduced in October of each year by the calling and cancellation of bonds to the value of \$5,000.

MEMBERSHIP

The intellectual resources of the Institute depend upon the quality of its membership. It has not been the policy of any administration to make what is called a "drive" for members, but instead to encourage desirable men and women to affiliate with the Institute if they could meet the requirements of examination, practice and character. The Institute has increased uninterruptedly through the ten years of its life. Even the war did not greatly affect the numbers of new members. The standards of admission have been well maintained. The following tabulation shows the numbers of members at the end of each fiscal year:

Year	Members	Associates	Total
1916.....	1,093	57	1,150
1917.....	1,100	120	1,220
1918.....	1,119	106	1,225
1919.....	1,130	122	1,252
1920.....	1,185	178	1,363
1921.....	1,239	245	1,484
1922.....	1,303	303	1,606
1923.....	1,433	376	1,809
1924.....	1,517	388	1,905
1925.....	1,599	409	2,008
1926.....	1,664	400	2,064

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PROFESSIONAL ETHICS

One of the prime purposes for which the Institute was founded was the establishment and enforcement of a code of professional ethics which should be at least as high as that of any other learned profession. The code adopted by the council in April, 1917, has been strengthened and augmented slightly from time to time and is now regarded as fairly comprehensive. The committee on professional ethics, one of the elected committees, has been continuously engaged in the inculcation of ethical principles and in the consideration of cases placed before it. Complaints have been formally presented against 22 members and two associates, and the council sitting as a trial board has dealt with them as follows: Expelled, 1; suspended, 9 (one of whom was subsequently exonerated); admonished, 4; censured and subsequently exonerated, 2; accepted resignations of persons under charges, 3; acquitted, 2; cases now pending, 3. The offences charged have ranged from deliberate fraud to unprofessional conduct such as solicitation, advertising, etc.

BOARD OF EXAMINERS

The board of examiners has conducted semi-annual examinations of applicants seeking admission to the American Institute of Accountants. The board consists of nine elected members, who meet monthly throughout the year, with the possible exception of one summer month. Since the foundation of the Institute the board has dealt with 1,728 applications for admission. In 1917 it seemed wise to offer the use of the board's papers and services to state boards of accountancy in the hope that a standard of examination might supersede the inconsistency of the conditions then prevailing in many of the states. At present 34 states and two territories are setting the Institute examinations as the test preliminary to registration as certified public accountants. We have, then, 69 per cent. of the 52 statutory boards of accountancy adopting a standard which is certainly not excelled in any jurisdiction. This plan has saved the certified public accountant certificate from falling into disrepute and final collapse. Under the plan of coöperation the Institute board has supplied examination papers for 8,172 candidates for certification in the states which have adopted the plan.

At the beginning of the Institute the board of examiners refused to accept as satisfactory the results of any examination other

than its own. In 1922, however, it appeared that this rule might be modified to some extent and the board was granted the privilege of accepting in lieu of an Institute examination a certified public accountant certificate, issued after examination, or membership in a foreign society, based upon examination. It was provided, however, that each case must be decided on its individual merits and that the examinations recognized must be considered by the board sufficient to demonstrate the technical ability of applicants. As the result of the operation of this new rule the board has recommended the admission of 165 members and 61 associates who have not been required to pass the Institute's examination.

ENDOWMENT FUND

Soon after the Institute was founded the idea was conceived by George O. May, warmly supported by E. W. Sells and others, that there should be an endowment fund from the income of which the Institute would maintain a library and a bureau of information. The proposal was approved by the council, and a campaign to raise money led to donations amounting in the first year of the plan to \$111,746.83. Initiation fees and the profits from the sale of books published under the endowment fund have been added to the principal amount or to the funds of the American Institute of Accountants Foundation. These accretions supplemented by other donations increased the endowment fund until at the end of August, 1926, it stood at \$216,543.71, taking all securities at their current market value of that day. In 1921 a new corporation known as the American Institute of Accountants Foundation was chartered under the laws of the District of Columbia to receive and expend for scientific and educational purposes donations and other funds which might be presented to it. The principal account of the Foundation at August 31, 1926, amounted to \$44,675.65.

The bureau of information operated by virtue of the endowment fund is unique. No other profession seems to have adopted any plan at all similar to it. The bureau receives questions from members, answers them if possible from written matter, but, if not, refers them to other members whose experience makes them competent to answer. The bureau is thus a clearing house of information and the identity of those who inquire and those who answer is not divulged to anyone. The whole transaction being

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anonymously conducted, no one feels the least hesitancy about making use of the facilities. Since the bureau was created the following numbers of questions have been received and answered. The years in these statistics are the fiscal periods ended August 31st:

1919.....	572	1923.....	3,021
1920.....	831	1924.....	3,603
1921.....	1,444	1925.....	4,104
1922.....	2,630	1926.....	4,694

LIBRARY

The library of the Institute has been accumulated chiefly by expenditure of the income of the endowment fund. A few important donations of sets of books have been made, and a great many individual volumes have been presented by their authors. There is a circulating department which is much in demand. The library is certainly the best collection of accounting literature in America and quite possibly in the world. The following figures indicate extent and growth:

	Bound books and magazines	Unbound books and pamphlets	Totals
1919.....	1,389	1,632	3,021
1920.....	1,765	1,757	3,522
1921.....	2,177	2,542	4,719
1922.....	2,916	3,232	6,148
1923.....	3,422	3,785	7,207
1924.....	3,751	4,333	8,084
1925.....	4,215	4,948	9,163
1926.....	4,767	5,763	10,530

Many of the answers to accounting questions supplied by the bureau of information have seemed to be of such importance to the profession generally that 27 special library bulletins containing selected answers have been issued. The outstanding accomplishment of the librarian is the compilation and editing of the *Accountants' Index* published in 1921 and its supplement published in 1923. The two volumes constitute a comprehensive key to all the literature of accountancy in the English language in print in 1912 and published subsequent to that year. The accounting profession acknowledges this to be a contribution to the advancement of the science and an addition to the literature which has never been excelled.

The Journal of Accountancy

As a logical outgrowth from the library and bureau of information the council has approved the establishment and operation of a bureau of research. This plan is now being developed, but its fruition will not come within the period under review in this report.

"THE JOURNAL OF ACCOUNTANCY"

THE JOURNAL OF ACCOUNTANCY has been an official publication of the American Association of Public Accountants and the American Institute of Accountants from its beginning in 1905. The actual publication was in the hands of the Accountancy Publishing Company until 1911. Then, by an agreement between the American Association and the Ronald Press Company, the association undertook editorial control and the company the duty of publication. This arrangement was terminated in 1921 when the Institute assumed control of both departments. A corporation, The Journal of Accountancy, Incorporated, received a charter from the state of New York and the magazine has since been published promptly and satisfactorily by this new company. The publishing company occupies parts of two floors in the Institute's building and thus contributes substantially to the rental income. The circulation of the magazine has declined in common with the general decline in magazine circulation in the last few years.

The net paid circulation of the ten fiscal years follows:

1916.....	4,940
1917.....	7,177
1918.....	9,669
1919.....	11,501
1920.....	14,000
1921.....	14,706
1922.....	13,927
1923.....	13,574
1924.....	12,563
1925.....	11,831
1926.....	11,274

A small two-page bulletin of confidential information for members was published in December, 1916, and continued until 1924, when it seemed well to increase the size and scope and to offer the bulletin for sale outside the membership. The responsibility for publication of the bulletin was then assigned to The Journal of Accountancy, Incorporated. This supplement to THE

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JOURNAL OF ACCOUNTANCY has been well received by a small number of subscribers and is almost self-supporting, although it contains no advertising of any kind. The circulation at the end of August, 1926, was 3,471.

OTHER PUBLICATIONS

In addition to these magazines and the *Accountants' Index*, the Institute and its subsidiary organizations have published other texts of value to the profession. Although these ventures have not been undertaken solely or primarily with the hope of financial reward, as a whole they have been profitable. The following table contains statistics of the publication of all books issued by the Institute, the board of examiners, The Journal of Accountancy, Incorporated, and the American Institute of Accountants Foundation:

Title	Sales	Cost	Profit
<i>Accountants' Index</i>	\$12,965.03	\$20,822.80	*\$7,857.77
<i>Accountants' Index, Supplement</i>	2,905.17	5,600.02	*2,694.85
<i>Audit Working Papers</i>	30,470.51	17,846.42	12,624.09
<i>Duties of the Junior Accountant</i>	12,469.55	4,914.71	7,554.84
<i>Introduction to Actuarial Science</i>	4,395.89	1,746.18	2,649.71
<i>Examination Questions</i>	9,128.27	5,903.18	3,225.09
<i>The Balance-Sheet</i>	6,902.80	5,175.76	1,727.04
	\$79,237.22	\$62,009.07	\$17,228.15

*Loss.

EDUCATION

The education of the accountant is one of the chief considerations of the Institute. A standing committee, originally of three members, but now increased to five with a system of rotation in appointment that assists continuity, has kept in close touch with the schools of business, commerce and accounts throughout the country and has made complete tabulations of educational statistics. This committee has been charged with the duty of preparing a comprehensive curriculum which will be offered to schools as a guide or perhaps as a definite outline of study. The committee for the past two years has been discussing a general summary of the nature of accounting work so that a curriculum may be founded upon the actual requirements of professional practice.

BUREAU FOR PLACEMENTS

Closely related to the work of the committee on education, but entirely independent of it, is the recently formed bureau for placements, which is conducted by a special committee with the approval of the executive committee. The bureau has been financed by contributions from some of the leading firms of accountants, but its services are available to all members. The intention of the committee is to encourage college graduates to select accountancy as a profession and to enter the offices of members of the Institute on a three-year contract of employment. This innovation was begun in the spring of 1926 and accordingly has not had opportunity for full development. Its operations so far, however, have exceeded the expectations of its sponsors. One hundred and twelve colleges have expressed approval of the plan, 277 graduates have applied for employment and requests for 74 men have been received from 26 firms. When the bureau's experience is longer the question of possible expansion will be answerable.

COÖPERATION WITH BANKERS

The relations between accountants and bankers today differ vastly from those of 1916. There has often been a tendency to recrimination between the two classes of men and this has led inevitably to a good deal of strain upon the friendliness and helpfulness which should be manifest. The banker is too ready to attribute fault to the accountant, and the latter frequently takes refuge in the claim that the banker is to blame. The way out of the difficulty lies through understanding and forbearance on both sides. With this in mind the Institute established a system of interchange of criticisms and opinions between a special committee and a similar committee of the Robert Morris Associates, the principal organization of the credit officers of banks. The two committees have worked in harmony for several years and as a result there is a much better knowledge of the facts by accountants and bankers. This coöperative effort is continuing. Many somewhat complex questions of accountancy practice and propriety have been answered by the Institute's committee, and a less number of criticisms has received the earnest consideration of the bankers' committee. One of the fundamentals upon which coöperation between accountants and bankers has been constructed is the outline of the minimum requirements for a

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balance-sheet audit issued by the federal reserve board under the title, *Approved Methods for the Preparation of Balance-sheet Statements*. This outline was prepared by the American Institute of Accountants at the request of the federal trade commission and, after endorsement by that commission, was published by the federal reserve board with the recommendation that the procedure described be required by bankers. This programme of audit although now nine years old is still the model for the banking and accounting community of this country.

PUBLIC AFFAIRS

In 1921 and 1922 there seemed to be a desire by some members that the Institute should undertake a nation-wide campaign of advertising the profession, not in a personal but in a corporate sense. It was suggested that a fund of \$500,000 should be raised to cover the expenses of a five-year adventure. The proposal did not appeal to the membership and the amount of subscriptions was inconsiderable. This effort to encourage interest in a plan of propaganda was productive of a modified scheme for attracting public attention, and in 1923 a special committee was appointed to conduct a bureau of public affairs. This bureau has been in existence for more than two years. It has succeeded in obtaining a large quantity of newspaper and magazine publicity; it has undoubtedly encouraged many members to increase their participation in various kinds of public service; it has issued six letter-bulletins discussing matters of timely interest. This has been done at a total cost of approximately \$50,000, of which the Institute has contributed \$9,286.19 and the members have given \$36,957.25. Sales of the bureau's publications have produced the balance. The titles and circulations of letter-bulletins follow:

Subject	Number distributed
No. 1. Arbitration.....	20,000
2. The crime tendency.....	105,000
3. Credit frauds.....	98,000
4. Tax simplification.....	42,000
5. Federal arbitration.....	24,000
6. Bankruptcy problems.....	30,000

STATE LEGISLATION

A subject of constant anxiety to the accountant is the legislation of the many states, which is liable to sudden and unforeseen confusion in the political kaleidoscope. The Institute's concern in

the question of legislation is in part inherited from the American Association, its predecessor, and in part the result of recent developments. Many of the state and territorial laws regulating the practice of accountancy are founded upon model bills drafted by the American Association of Public Accountants or by the Institute, and nearly all are influenced by if not directly transcribed from these bills. The development of the profession and the changing conditions of politics demand unremitting watchfulness. The Institute's committee on state legislation follows closely the sessions of state legislatures and has been the chief instrument in preventing the abolition of some good laws and in encouraging the enactment of laws where needed. It has been in close coöperation with similar committees of state societies, so that concerted and effective action has almost always been possible.

PROTECTION OF PROFESSION

An incident which attracted a good deal of attention at one time was the creation of an organization in the District of Columbia known as the National Association of Certified Public Accountants. This association issued to its members certificates which bore the words, "certified public accountant." In order to protect the profession against possible injury from this source, evidence was collected under the direction of the counsel for the Institute, J. Harry Covington, and a suit in equity was instituted by the United States of America, plaintiff, against the National Association of Certified Public Accountants, a corporation, defendant. The plaintiff in the case sought a preliminary injunction restraining the National Association from issuing C. P. A. certificates. A brief was prepared by J. Harry Covington and presented to the United States attorney for the District of Columbia. The injunction was granted by Justice Hoehling on June 12, 1922, and made permanent after appeal to the court of appeals of the District of Columbia July 18, 1922, exactly one year after the first evidence in the case was obtained by the Institute.

FEDERAL LEGISLATION

The legislative interests of the Institute do not end with the states but extend also to national affairs. The chief subject which has engaged the attention of the Institute's committee on federal legislation has been the taxation of incomes and profits.

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From the beginning of the congressional effort to impose an excise tax in 1909 to the latest enactment of a modified income-tax law in 1926, the Institute (or, prior to 1916, its predecessor) has been in consultation and collaboration with committees of the senate and house of representatives. The first laws were originally drafted in great part by members of the American Association and consistent attempt was made to encourage the enactment of fair laws founded upon practical principles and liable to just administration. Much of the success of law and regulation is due to the Institute's assistance through its committee and to the invaluable advice and aid given by many members who devoted their time and talents without stint to the service of the country during the war and in the years next thereafter. It would be futile to endeavor to give anything like a complete record of the service of the members and committees of the Institute in this one field of federal taxation.

WAR SERVICE

The war, of course, changed all the conditions of life and professional practice. Before the United States had finally acknowledged its obligation to enter the war, and when some few people were still professing to believe that this country should remain neutral, the Institute was in communication with the government at Washington, and the moment war was declared a committee of the Institute took its place in the capital and rendered technical advisory service without thought of compensation. No doubt a great many accountants would have found their way into the armed and technical forces of the nation had there been no Institute, but it is incontrovertible that the organization of the profession and the possibility of obtaining through the Institute's office the kind of men required for various activities made it practicable to employ the profession with full power and effect. It is not desirable in such a review as this to specify the service rendered by any one member. Let it suffice to say that out of an average wartime membership of 1,222, including the associates, the Institute has record that 257 members served their country or with their country's allies. Most of these men were assigned to duty on the recommendation of the Institute. There were probably many others who have not reported their services.

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There are many other committees of the Institute whose deeds have helped forward the general progress of the profession, but in the cause of brevity they must be omitted from so condensed a review of the Institute's first decennium. The principal accomplishments have been mentioned and no attempt has been made to predict the developments which lie ahead. It is with fact that this report must be concerned.

REGIONAL MEETINGS

It is of interest to all the members of the Institute to consider the remarkable developments that have taken place in the method of organization. In the beginning it was felt that the annual meeting of the Institute might provide the necessary opportunity for assembling and for building personal friendships among the members. The year 1920, however, witnessed the beginning of an experiment which has grown to nation-wide proportions. In that year a regional meeting of the members of the Institute in Illinois and adjacent states took place in Chicago. There was no attempt at formal organization. It was simply a local meeting to which everyone who felt an interest in accountancy was invited. The movement thus begun has spread until today there are four regularly recognized regions of the Institute, most of them holding two meetings a year.

CHAPTERS

When the Institute was founded there was no provision for local chapters, as it was believed that chapters might duplicate the functions of some of the state societies. It soon became apparent that there was a real demand for local branches of the Institute and accordingly the constitution was amended to permit chapter organizations. Since that time chapters have been formed and approved by the council as follows:

California	Oregon
Illinois	Philadelphia
Kansas City	Pittsburgh
Maryland	Rhode Island
Massachusetts	St. Louis
Michigan	Southern Ohio
Northern Ohio	Texas

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FOREIGN AFFAIRS

It remains to report that the relations with foreign societies of accountants have been increasingly cordial. On several occasions representatives of the leading societies have been present at meetings of the Institute, and the Institute has been represented at various meetings abroad or in Canada. A spirit of helpfulness in the international field is quite manifest and is doing much to help forward the cause of world accountancy.

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This, then, is in brief the ten-year history of the American Institute of Accountants. The record has been set down in blunt statement without any attempt to dwell upon or to emphasize any portion of it. It is the kind of chronicle in which comment would be entirely superfluous.