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## Editorial

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# *The* JOURNAL of ACCOUNTANCY

*Official Organ of the* AMERICAN INSTITUTE OF ACCOUNTANTS

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A. P. RICHARDSON, *Editor*

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## EDITORIAL

### **Taking Stock**

When stocks are low and business least active the merchant takes advantage of the conditions to estimate his profits and to determine the value of his inventory. The accountant is beginning to learn that this mercantile practice may be applied professionally, and during the rather slack days of late summer he devotes his attention to estimating what his practice is worth, what he has accomplished and, perhaps most important of all, what he may expect to achieve in the coming year. In nearly every accounting office there comes a time when the number of idle hours of the staff is out of proportion to the busy hours, and in the greater part of the country this time comes during August and September. Many men who have been building substantial practices and whose energies have been engaged beyond the normal limit since the enactment of federal tax laws are beginning to give thought to the future of the profession and are setting their houses in order for the inevitable and ultimately desirable stabilization of the profession. One hears many comments upon the decreasing revenues from tax practice and many hopes expressed that the ordinary work of audit and investigation will so increase in volume that the decline in tax work will be compensated. When the first rush of activity following upon the confusion and complexity of war taxation was with us there were accountants, and many of them, who seemed to feel that the extraordinary growth of professional work would be permanent. Latterly, however, tax practice has become simplified, the days of great fees for small services, which were seized upon with avidity by less scrupulous practitioners, are passing, and the profession is coming into a region of calm and steady progress in ways of substantial prosperity. In all probability there will

never be another period so fevered as the years from 1917 to 1921. In the absence of some national crisis business may be expected to advance slowly and to establish itself as it goes. In process of time there may be even less demand for the tax practitioner, and the accountant will be called upon to render those services for which by tradition and experience he is primarily prepared. All this is an indication of health. No profession which thrives only upon abnormal conditions can expect to continue. The chief warrant for hopes of future prosperity is found in the need for accounting advice and service to keep step with the march of ordinary business. Great profits have been derived from exceptional activity, and these of course are thankfully received, but the true worth of accountancy depends upon its participation in the gradual upward growth of business as a whole. These facts are beginning to be generally recognized by the profession, and as a consequence American accountancy is taking its place beside the older and more firmly established professions of law, engineering, medicine and the like. No accountant with a proper sense of his part in the business world can regret the change from sporadic activity to steady and continuing progress, even if the financial returns may at times be less than they were in the days immediately following the great war.

**A Conservative  
Profession**

Accountancy has been subject to a good deal of criticism because of the apparent desire of some of its exponents to make hay while the sun shines. The idea that a client should pay all that the traffic will bear has been evident in some cases. Now, however, like Spenser's jolly mariners, we be come into a quiet rode, and we can devote time and thought to the strengthening of the position which the profession holds and to the better and better equipment of those who practise it. And all this is for the good of the order. When men are too busy making money to give attention to the method and manner of making it there must be danger to the profession. Taken as a whole, accountants have been conservative and have observed with an altogether admirable consistency the standards which they have set up for themselves. The changed conditions are disconcerting only to those who have attempted to thrive upon the purely temporary. The great body of the profession pursues the even tenor of its way and thinks more of the final goal than of the instant profit.

**The Trumbull  
Steel Co. Case**

The New York *Times* of September 3rd reported an announcement by the New York stock exchange that \$17,500,-

000 temporary certificates for a sinking fund bond issue of like amount of the Trumbull Steel Company had been stricken from the trading list. The bond issue was floated in July but the definitive bonds had not been issued. Proceeds of the subscription were held by the investment bankers because of complications in the affairs of the company. Says *The Times*:

"This is believed to be the first instance in which so large a bond issue has been recalled after having reached the stage of the Trumbull issue. The bonds were sold on a when, as and if issued basis, subject to the advice of counsel as to legal features. The actual bonds never have been delivered, investors receiving interim receipts from the banking syndicate handling the issue. These interim receipts are being recalled by the National City Company and its connections. The money is being repaid to investors, with interest. It is believed that all the interim receipts will have been turned in and the bond transaction wiped off the books soon. . . . The National City Company has made no statement regarding the situation. A statement from directors of the Trumbull Company said the bond issue had been recalled because of discrepancies appearing in the balance-sheet on which the loan was based. A new appraisal of the company's properties is being made, and it was said yesterday that the merger with Otis and Midland depends on the showing of this audit."

There are several noteworthy features of this case which deserve attention by the investing public. The whole question of the issuance of securities based on a balance-sheet giving effect to new financing is a troublous one, and the American Institute of Accountants has found it desirable to adopt a committee report outlining rather distinctly what such a balance-sheet may contain and what safeguards must be provided against the liability to misrepresentation or to unintelligible complexity. There are times when this kind of balance-sheet is positively required, but it is a dangerous implement and in the hand of a careless workman may produce highly unfortunate results. The practice has been criticized on the ground that the new financing may never be consummated. The reply has been that provided a reputable and strong house is handling the issue, those who subscribe to securities on the faith of the statements submitted will be protected. Investors have sometimes fallen between two stools, where the company whose securities were offered was unable to sustain its representations and the issuing house proved to be financially weak. The present incident seems to show that where the issuing house is trustworthy the investor is adequately pro-

tected. The questions raised in the Trumbull case regarding liabilities not known to the directors or auditors are serious, but comment on them must be withheld until the facts are known.

**Room For All** While thinking about balance-sheets giving effect to proposed financing let us pause for a moment to consider another which has recently made its appearance. It is the statement of future conditions of a manufacturing company—doubtless a most estimable company. There is nothing amiss in the prospectus or the balance-sheet. It conforms to all the conventions of Wall street. There is the usual ultra-conservative letter from the president. The registrar is a large hyphenated bank and trust company. The transfer agent is one of the nation's great banks. Competent lawyers have done their task of review. The accounts have been audited by a firm which would not admit a status less than prominent. Engineers have performed their duties in behalf of the investing public. Everything that the Wall street mind has so far devised for the dressing up and beautifying of a security issue has been done. And after all this we find that the total of liabilities under the head of capital stock, after giving effect to proposed financing, is less than \$170,000. On the asset side accounts receivable appear at less than \$50,000, of which more than half is "pledged to secure loans payable." "Permanent assets" reach the stupendous total of more than \$60,000, and among them is an automobile valued at about \$2,000 "pledged to secure notes payable." There was a time not long since when possession of an automobile even pledged to secure notes payable would have been a token of greatness. Nowadays, however, we are not so sure that it is so. But let no top-lofty person of great wealth look down upon our humble little company. It is doing its best to shine in society. It has learned all the arts of polite life in Wall street and we wish it success. To those distant and happy critics out in the open spaces, as they say in the movies, who think of Wall street as a place where the little fellow thrusts not up his head this manufacturing concern is a good object lesson. All the pomp and circumstance, siege guns and field artillery are brought into play exactly as though millions of dollars were involved—and all on account of a friendly little chap whose motor car is not yet free and clear.

**The Question of  
Reciprocity**

In the course of his presidential address to the American Institute of Accountants, John B. Niven drew attention to a rather unsatisfactory state of affairs in reciprocity between state boards of accountancy. Most of the states have in their laws provisions which will permit the issuance of certificates to holders of certificates in other states, but the provisions are not even and in application often lead to what seems to be unfairness. The ideal provision would permit the authorities of any state to issue certificates to persons who had been certified in other states wherein the standards of examination, education, etc., were considered satisfactory. The question whether similar courtesies would be extended in return is really unimportant. Broad-minded recognition of all certificates issued after proper investigation and examination is the only solution of the problems which arise in interstate practice. A few states have laws which permit the recognition of certificates of other states or provide for the registration of accountants whose claims to recognition have been accepted in other jurisdictions; but for the most part the laws are upon a reciprocal basis, and as a consequence are largely inoperative. If a man registered in the state of X seeks registration in the state of Z and can only obtain such registration if X will extend similar courtesies to registrants of Z there is strong probability of an impasse. If, however, the only requirement on the part of Z is that the standards demanded by X shall be satisfactory, the real purpose of the law will be served. It is perfectly reasonable to expect reciprocal courtesies. But to grant courtesies to those who will not do likewise indicates a genuine breadth of mind. "If ye love them which love you what thank have ye?"

**Differences of  
Standards**

Obviously, when there are forty-eight states, three territories and one district having C. P. A. laws there must be a wide difference in standards, methods and administration, and it is not to be expected that the authorities in any one jurisdiction will extend recognition to the certificates issued by all others. It is quite certain, however, that out of the fifty-two political sub-divisions there must be many whose standards are adequate; and the business public as well as the accounting profession will be truly served if recognition be granted wherever that can be done without a lowering of requirements. The matter is com-

plicated to some extent by the constantly changing laws and rules governing the registration of accountants. It is almost compulsory for those who are called upon to determine the qualifications of applicants for registration to give consideration to each case on its individual merits. This is what the board of examiners of the American Institute of Accountants does. The certificates of no one state are acceptable per se. The board investigates the record of each applicant, reviews the examination which has been passed and gives consideration to the ability of the examiners whose opinion was responsible for the issuance of the certificate. Similar procedure might easily be adopted by any state board which, under the law, had the right to extend recognition to accountants coming from other jurisdictions. The great point is that there should be no unnecessary restriction upon the practice of an accountant whose qualifications are approved by any authority which insists upon sufficient knowledge, fair experience and good character before granting certificates. The jealousies which interfere with orderly procedure in some states are chiefly the result of a narrow view, but there seems reason to believe that this narrowness is passing. So long as there is work enough for all qualified accountants it is folly to obstruct the development of proper professional spirit and liberality. And, speaking generally, there seems to be no indication that the number of accountants will increase so rapidly as to make cut-throat competition or local jealousy even excusable for many years to come. What is wanted is a good, broad, gentlemanly spirit of professional etiquette not only between men but also between states.

**Spread of  
Ethical Rules**

The example set by the American Institute of Accountants in the adoption of certain fundamental principles of ethics is being followed by many organizations throughout the country and also in other countries. Not many months ago we referred at considerable length to the excellent code promulgated by the state board of accountancy of Mississippi. All codes which have been adopted or are under discussion are interesting, but there is ever a danger of falling into a resemblance to a sophomoric essay instead of a working plan. A code to be effective must be specific in its application. A wide and airy discussion of ethical principles is not an enforceable code. In some

cases, however, the attempt to go into elaborate detail seems rather unwise. For instance, the *Bulletin* of the American Institute of Accountants, published September 25th, contained a translation of the code adopted by an organization of public accountants in Mexico. There can be no quarrel with the desire of the practitioners in Mexico to regulate the profession, and most of the provisions in the code are singularly like those of the American Institute. In some ways, however, the Mexican rules sound more like a price agreement or a trade-union contract than a professional utterance. As an illustration, there is a provision that members may be expelled who fail to attend ten consecutive conventions without justifiable cause. This does not seem to involve a breach of ethics so much as a lack of appreciation of good fellowship. If a similar rule were to apply in the accounting organizations in America and Great Britain, trial boards would be kept in continuous session. Another unique provision is that those members may be disciplined who are declared guilty by a judicial verdict officially handed down of any ordinary offense. This may be a rather too literal translation of the Spanish which reads:

“Que sean declarados, por sentencia judicial ejecutoriada, responsables de la comision de algun delito del orden comun.”

However, the code as a whole is commendable and its adoption indicates an earnest desire on the part of practitioners in the great neighboring republic to insist upon the observance of those principles which are more anciently established in older countries.

**The Subject Is  
Important**

Some of our readers have expressed the opinion that it is unnecessary for THE JOURNAL OF ACCOUNTANCY to devote so much attention to the subject of professional ethics. They say that we may be accused of protesting too much. This criticism, however, does not seem to be well founded. If accountancy is to continue, it must be upon a professional basis and no profession can exist which is not firmly established upon a foundation of ethical procedure. If every man or woman who engages in accounting work were thoroughly imbued with the thought of professional decency there would be no necessity for a code of ethics or for mentioning the subject. One of the most eminent members of the profession in the early days said shortly before his death that ethics was a state of mind, and without that state of mind



no one could be trusted to be ethical. The truth of this assertion is so evident that the Institute prefers to set in writing its conception of what constitutes ethical practice, not necessarily in the belief that its members need to be told, but chiefly so that those few who are out of the state of mind to which we have referred may be shown the error of their ways and be induced to conform to right dealing or to withdraw from the organization, either voluntarily or by compulsion. It is not an unnecessary subject. It is always alive and will be until that perfect day when every man who describes himself as an accountant can be trusted to think of his neighbor as well as of himself. The essence of ethics is really the golden rule.

**Accountancy in  
Glasgow University**

We learn from a recent issue of *The Accountant*, London, that the first chair of accountancy in the British Isles has been founded in the university of Glasgow. The professorship has been endowed with a capital fund of £20,000 by David Johnstone Smith. It is noteworthy that the development of education in accountancy has proceeded all these years in Great Britain, which was the source of modern accountancy, without the establishment of a department of accountancy in any British university. Here in America there are university schools in great number doing splendid work for the betterment of the profession, and in Canada there has been for some time a similar development, particularly in McGill university at Montreal. The acceptance by the university court at Glasgow of the endowment offered by Mr. Smith will doubtless encourage the establishment of similar professorships in other British universities. It may be years before the ancient traditions of Cambridge and Oxford can be stretched to permit recognition of accountancy as a profession for which a liberal university should provide educational preparation, but even there it is certain that sooner or later there will be opportunities comparable to those now provided in preparation for admission to older professions.

**A Liberal  
Proposition**

Several correspondents have drawn attention to an advertisement which recently appeared in the middle west whereby the advertiser offers "a complete business service contract, including legal consultation and service, tax consultation,

collection service (5 to 15%), accounting and system advice, and the balance-sheet audit report as of any date within contract period for an annual fee of \$75, \$10 payable on delivery of contract and \$65 on completion of audit." It seems superfluous to comment upon this liberal and inexpensive offer.