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## Modern Accountancy \*

BY FESTUS J. WADE

The professional accountant to the banker is the same as the compass to the mariner. The American Institute of Accountants is the foundation on which accountancy must be builded if you want the respect to which you are entitled, and if you want your reports regarded as 100% correct. The banker should be sure to employ accountants affiliated with the American Institute of Accountants.

There was a time when accountants were engaged only to investigate embezzlements and defalcations, a time when you were sent in only to look after crooks. That is all gone by. Your task today is not only to obtain a clean reflection of a corporation's books, but it is also to show the improvident manufacturer and banker and merchant how his method of doing business is apt to bring him on the rocks. How many balance-sheets can you look over and size up the current assets against the current liabilities? Some fool bankers think that if they are five to one—if the current assets of an institution are five to one—that is all that is necessary. They don't look over the profit-and-loss account; they don't endeavor to find out whether there is an unbalanced inventory or not; they don't begin to see whether or not they are drifting into fixed assets so heavily that the load is bound to swamp them. No, they just look at the current and the quick. Why, some of them demand two to one, and I know of other cases where the current liabilities are only one to one and they are condemned although they may be better than the fellow who is five to one.

A misfortune has grown up in accountancy. I suppose you want to hear both sides of this story. There are appraisal associations which are hired to see how high they can estimate the cost of a building. They will take every little bit of wire, brick and mortar when it was sold at twenty-five per cent less than the price today and add on that twenty-five per cent and think they have made money for their employers. You know that. You know in 1921 that what wrecked more institutions than were ever

\* An address delivered at the annual meeting of the American Institute of Accountants, St. Louis, Missouri, September 16, 1924.

wrecked in the history of this nation in five years previous was just such fool accounting, fool expectancies of appraisal, and other fool notions frequently practised.

Don't ever issue a certificate of that kind. "I took the inventory from the responsible heads of this company." Now what does that mean? It means that you come in as a bank examiner to the Mercantile Trust Company or any other bank or trust company in the country, and you say, "I took an inventory of the stocks and bonds on hand," or "I took the statements of the responsible officers of that company for the cash they had on hand." What would you think of that? Suppose a bank examiner was to come into any first-class, well-regulated financial institution of the United States and the president and all the vice-presidents and all the officers would say, "We have got \$2,323,000 cash in the vault and we are all honorable men," and the report reads, "from the statements of the responsible heads of this institution they have \$2,323,000 cash in their vault. We did not see it but they are honorable men." What is the difference between an inventory of cash or bonds and an inventory of any other kind of merchandise or securities? The banker is a merchant; he deals in credit, making loans, selling credits. There is no science in banking. When you hear of the scientific banker, take it from me, he is talking scientific bunk. Banking is just exactly the same as accountancy, the same as manufacturing, the same as merchandising. It means just the same kind of old-fashioned common-sense and no other. You cannot, by any legerdemain, put any new schemes into it. If a man lends money on bad credit, he will go broke whether he be a merchant or a manufacturer or a banker. You have some crooks in accountancy, so have we in the banking business. So has every vocation in life; but the banker or the merchant or the manufacturer or the preacher who fails to render an honest account, who fails to permit representatives, honorable men to examine their accounts, is not worthy of trust. We had in the United States—we have today—a system of bank examination. We are examined in one state in this union by a fellow who comes in, smokes our cigars for about four days and gives a complete acquittance, when it takes the clearing-house examination in the city of St. Louis, with ten men, six weeks to go through it. But of course this fellow is an oracle and I have no doubt, if I fished around a little, he might be found to have an accountant's certificate from somewhere.

*Modern Accountancy*

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You do not know, gentlemen, the good you are doing. You do not realize what real public benefactors you are or how you protect the widow and the orphan, how you protect the honest but misguided merchant or manufacturer or banker. If you keep up the high standard your president has so aptly put to you, you are as much of a benefactor to the United States of America as Andrew Carnegie or John Rockefeller ever dared to be, because you save by your honest, conscientious reports people who cannot save themselves.