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## Renaissance in accountancy

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## HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

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### A Renaissance In Accountancy

**S**IGNS which gradually are taking form along the horizon indicate the dawn of a new era in the relationship of public accountants to those who have occasion to utilize their reports.

The reverberations of a recent business failure sound ominous warnings which leave no doubt that accountants must make clearer to those who retain their services and make use of their reports the differentiation of services.

A physician prescribes for different kinds of maladies. No one medicine serves every purpose. A surgeon is not expected to have a standard form of operation which relieves alike for mastoiditis and gangrene. Nor, incidentally, is the surgeon expected to remove a portion of the intestine, by mistake for the vermiform appendix, when he knows he is dealing with a case of appendicitis.

In the development of accountancy practice the general public, commercial bankers, investment houses, and others have been slow to recognize distinctions among various classes of service which accountants render. The financial statements in reports of recognized accountants admittedly have been taken as Gospel without perusal of the entire reports. Uncertified statements have been accepted apparently without appreciation of their lack of value as a basis for reliance. Reports on limited examinations and balance sheet audits

have had as much standing as those resulting from general audits.

The question which naturally might be expected is, "How is the bewildered general public, banker, and the collective other person to know the differences among these various types?" Accountancy is a technical profession dealing among other matters with the highly technical subject of accounting. How is the layman to determine what is what and which is which?

The only official attempt of known record which has been made publicly to inform those interested as to what may be expected of accountants is a "Tentative proposal for uniform methods for the preparation of balance sheet statements" issued by the Federal Reserve Board in April, 1917. This praiseworthy manual commonly is referred to as the "Balance sheet audit of the Federal Reserve Board." Being uninformed to the contrary, the general public perhaps is justified in assuming that all audits are balance sheet audits, which is only one step removed from the possibility of gaining the impression that accountancy exists for the sole purpose of performing balance sheet audits.

The time has come, apparently, when accountants, through an authoritative medium, must let the public know something about what they undertake to do; to define and differentiate their various

classes of service. For this purpose, probably there is no better medium than the American Institute of Accountants.

The signs of the times point sharply to this demand. There is reason to believe that certain of those who collaborate with accountants will insist on something of the kind if relations are to continue. The in-

sistence of the accountants should be no less strong. With common understanding on the part of all who are concerned with accountants' services will come a new day in which accountants, meeting every just responsibility but without having to bear unjust burdens, will take a place of increased usefulness to business generally.

### A+B=Money For C

LET A represent the accountant; B the banker; C the customer of the bank and the client of the accountant. In borrowing money from B, C makes use of the services of A. B has a relation to C. A has a relation to C. Query: What is the relation of A to B?

In the triangular relationship, which, apparently, is a creation characteristic only of modern times, the purpose is to borrow funds with which to carry on legitimate business enterprise. The relationship finds existence in connection with fixed capital as well as current funds. The commercial banker lends for short terms. The investment banker places capital loans for long periods and obtains capital for permanent investment.

Character on the part of borrowers long has been an essential prerequisite for borrowing funds. Character still occupies a place of importance in considering the risk incident to the lending of money. There is reason to believe, however, that the importance of character is dwindling somewhat in the opinion of various bankers who have had the misfortune to sustain heavy losses through loans made to business enterprises whose officials were reputed to be men of character. Further, the now wider geographical distribution of loans by banks in large centers has tended to diminish the former intimacy of personal acquaintanceship.

Probably it is not an extravagant or immodest statement to assert that increas-

ing dependence and reliance steadily are being placed by bankers upon the services of public accountants and the professional reports which they render. As independent verifiers, the opinions of public accountants with respect to financial condition and operating results have become more and more essential to bankers in the granting of credit and the lending of money. Experience shows also that the name and reputation of the accountant have an important bearing on the value of the report for credit purposes and in connection with issues of securities, as well as the marketing of commercial paper. It is a matter of complaint on the part of the younger and less known accountants in remote parts of the country that money in large amounts is to be obtained only through bankers in large cities, who demand reports of well known accountants. The impression prevails, and is true in some cases, that the bankers specify the accountants who are to be employed, and dictate generally the character of the service and particular information which they are desirous of having.

If it were true that all bankers are in this enviable position, some of the misunderstandings which arise between bankers and accountants would be eliminated. Unfortunately, in too many cases, the borrower retains the accountant, specifies the service which he desires, and upon receiving the accountant's report, submits it to the banker for credit purposes. In far