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D. B. Peter

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The Accountant's Report *

BY D. B. PETER

Perhaps the best way to drive home the importance of the report—for it is of great importance—is to place yourself in the position of the client who receives it. What does he think of it? Is it written in a manner which will arrest, and hold, his attention, or is it a humdrum affair which he feels compelled to read only from a sense of duty before relegating it to the files? Too many reports are of the latter kind and in this the practising accountant does himself a great injustice, if not actual harm.

When you stop to consider the matter, do you realize that, generally speaking, the only thing which your client receives from you is your report? While preparing your report, do you bear this fact clearly in mind? Do you also bear in mind that your client will be apt to form his opinion of your professional ability solely on the basis of your report? In a great many cases, your report reaches the hands of officers who have not had occasion to watch you at work. They know nothing of the long, hard hours of honest effort you have expended before you are in a position to present your findings. All your work—in fact, all your professional experience—is concentrated in your report, and if your report is poorly presented or awkwardly expressed or loosely constructed or full of grammatical errors, how can the client feel otherwise than that all your work is equally poor or mediocre? The client may easily say to himself while reading your report, "And I pay real money for this stuff." Not only is your prestige damaged by such a thought, but the entire accounting profession is damaged. Professional men are expected to turn out professional work. The word "profession" is defined as "a calling in which one professes to have acquired some special knowledge." Surely the presentation of facts in an understandable manner—and their expression in good English—are expected of the professional accountant.

There is no conventional form of report. There can be no conventional form, for the simple reason that no two men can write the same kind of report covering the same matter. It is

* Notes of an address delivered before a lecture and study group of the American Institute of Accountants at Hotel Astor, New York.

true that certain methods of presentation are followed but, beyond this, the professional accountant's report must be individualistic. I do not believe that a good report can be written by any one who has not been on the job and absorbed some of the local atmosphere. At the same time, I fully realize that one may be so close to a job as to lose a proper perspective. After a troublesome assignment in the course of which some heated arguments have taken place, the accountant is almost certain to inject some venom into his report. In such a case the draft report should be reviewed by some one who has not been engaged on the work. In this way, comments tending to the brusque side will be noted and toned down, and possibly some rearrangement suggested which will improve the general tone of the whole report. I am quite sure many of you have re-read reports in summer which you wrote in winter and have wondered why you expressed yourselves as you did. In some cases, of course—too many, alas—the report was written under pressure. Nevertheless, much can be gained from a review of your own reports, supplemented, where possible, by a review of the reports of others.

Reports may be classed in a number of ways, depending upon the purpose for which the work is undertaken. Most of you will be interested, I assume, in the type of report which is rendered covering an annual examination. I believe a discussion of such a report under the following headings may be of value, viz.:

- (a) Presentation.
- (b) Expression.
- (c) Construction of sentences.
- (d) Grammar.
- (e) Punctuation.
- (f) Technical points.

PRESENTATION

By "presentation" is meant the general appearance and arrangement of the report and financial statements which accompany it. The stenographers play quite an important part, as a job which is poorly typed and badly spaced looks very unprofessional. A good stenographer will look over the entire draft before proceeding with the work while a poor one is apt to go ahead without regard to spacing. You probably are familiar with reports containing text on only one-half of a page, the continuity of the report being broken so as to use the following page for some

financial tabulation. Frequently the tabulation could better be presented as an additional exhibit. In fact, whole pages of figures in the body of a report are usually more tiring to a client than of value to him. Tabulations of financial data in comparative form are usually of considerable interest to a client, but if used in the body of the report these tabulations should be presented in summarized form. If details are wanted they are available in the financial statements accompanying the report. In regard to comparative statements of earnings, it is much better to tabulate the figures and to tabulate the percentages in separate and distinct sections than to run them together. Clarity and brevity should be the goal. If a reader has to "audit your audit" before obtaining the information he seeks, your report is not a good one. These comments fall under the heading of "technical points" (which are discussed later) but they are mentioned at this time as it is felt they are of great importance.

With regard to the sequence of a report, it is customary to follow along these lines, viz.:

- (a) Introductory.
- (b) Scope of examination.
- (c) Discussion of results of operations.
- (d) Discussion of balance-sheet.
- (e) Suggestions for improvement in accounting system.
- (f) Closing.

Each of these subdivisions could well be discussed at length with advantage to all of us. Many of you undoubtedly have very decided opinions as to the sequence of these subdivisions. As I have already said, no two men would write the same report about the same matter. I would suggest, however, that you make every effort to put yourself in the client's place and then decide what you would want to know about your business. Certainly any happening of importance should have a prominent place in the report. It should not be buried. Usually the important happening is whether the business has been operated at a profit or at a loss. It would seem, therefore, that a discussion of the results of operations is entitled to a place early in the report. Likewise, important changes in the financial condition should be discussed. This does not mean, however, that each item appearing in the balance-sheet should be commented upon under a separate caption. In a number of cases, your comments can

only be fragmentary. An entire page of captions containing only a line or so of text under each caption looks very unworkmanlike.

I believe most accountants now-a-days feel it necessary to set out in their reports the scope of their examination. It seems to me this is better placed early in the report than "tagged on" at the end. After all, the scope of the examination is really of considerable importance from the accountant's viewpoint. You will find, however, it is hard to express what you want to say. The difficulty seems to lie in the fact that the layman still thinks an audit comprises a check of every transaction and that an auditor should be able to detect any kind of irregularity in the accounts, particularly in cash. You can talk to a client about test-checking as much as you wish, but only in rare cases will you be able to make him understand that there are limitations to your responsibility. Just recall defalcations which have occurred in the course of your own experience. Once the defalcation has been brought to light, the whole procedure appears very plain to the client. No matter how cleverly things have been covered up, the client is firmly convinced that the irregularity should have been easily detected. He feels abused, of course, but he also feels you should have been more alert. He overlooks the fact that he has been constantly hammering at you to reduce your work and thus reduce the fee, and that you have done your best to meet the situation. In fact, he probably takes the attitude that you had no right to allow him to dictate to you the work which should be done. An irrational stand, of course, but just what does happen. You see, the client still has the old-fashioned idea of an "audit" in his head. Accountants have attempted to overcome this situation by using the word "examination" in place of "audit," and the new form of "certificate" contains the phraseology ". . . but we did not make a detailed audit of the transactions." However, too much reliance must not be placed on this statement. The accountant should be on record either in a letter, or in the report, as to the extent of the work he has done. The accountant is surely in a strong position if he is on record with the client that the work he has performed has been restricted to certain test-checks, and that, while transactions coming to his attention have been found to be in order, it does not necessarily follow that all of the recorded transactions are in order. Further, the accountant might well go on to state that the detection of

irregularities falls directly upon the client's own accounting organization. Do not overlook the word "recorded" as there may easily be transactions which are not recorded.

In making suggestions for improvement in the accounting system, it is well to bear in mind the probable effect of your report upon readers other than your immediate client. Remember that once your report is issued it becomes, so far as you are concerned, a public document. It may fall into the hands of disgruntled stockholders, and they would be quick to seize upon seeming flaws in management. They would proceed to magnify and twist your comments to suit their own ends. Such matters would better be covered in a letter to the client, and reference to this letter should be contained in the report. Be sure, however, you are on record. At the same time, do not lose sight of the fact that the client is in business to make profit and not primarily to keep books as the auditor thinks they should be kept. Some accountants are apt to overlook this and glibly make recommendations which could only result in expense to the client out of all proportion to the benefits to be obtained. I am sure many of you have met the client who looks upon his accounting staff as "dead" expense.

In regard to the closing of the report, there are differences of opinion as to whether or not the accountant should "express appreciation of the coöperation, etc. extended to him throughout the course of his examination." This point will always be one for argument. Personally, I believe the client usually appreciates such an expression. There are certain occasions, of course, when such comments are definitely called for as, for instance, when some special investigation has been carried out at a point where the authority of your client is not recognized.

EXPRESSION

The "expression" of the report was mentioned. By this is meant the style in which it is written. This may be conventional or individualistic, in poor or in good English. Sometimes I feel we accountants, as a class, are too conventional. As a result, our reports are not nearly as interestingly written as they could be. I think a man should express himself in his own style. I do not see how he can write a good report otherwise. I do not mean, of course, he need go to extremes, but the use of conventional phrases "cramps" anyone's style.

CONSTRUCTION OF SENTENCES

A common fault seems to be to make sentences unduly lengthy. I am sure many of you have seen some sentences a paragraph long. In a sentence of this length, two, or even three, thoughts may easily occur. A sure cure for this failing is to be called upon to read your report before some meeting. Not only are you hard put-to-it to carry the proper inflection through a long-winded sentence, but you usually run out of breath. Consider this one: "We expected to examine securities on hand on the morning of June 15, 1935, but since it is not the company's custom to remove securities from the safe deposit vault on Saturdays they were not in the office and we were unable on that date to obtain access to the safe deposit boxes owing to the absence from the company's office of officers with authority to open them." Another common fault is to set out qualifying phrases in the wrong place. For instance—

"The uncollected assessments at August 31, 1935, as shown by the records in the amount of \$———— . . ."

"In the amount" is wrongly placed. Some of these errors are quite as good as that mentioned in an old school book—

"Piano for sale by lady about to cross the channel with wooden legs."

GRAMMAR

Mistakes are frequently made in grammar. Tenses are mixed. "Ands" and "buts" are used indiscriminately, and words are wrongly used or poorly chosen. For example, "Employees handling funds," "The minute book could not be located," "a resulting balance," "The managers were contacted," "Write-off of bad debts." Another favorite error is to use the word "paid" when collected is meant. The double "that" is also frequently used, viz., "That the suggestion has been made that." Many of these errors would be detected if a careful re-reading of the typed report were made. With the typed report, you have a clean "job" before you and such crudities seem to stand out. The fault, however, lies in the manner in which the draft report is prepared. As a rule, insufficient care is given to it. To make corrections on a final typed report is a serious matter. It might easily happen that several pages of the report have to be retyped—a happening not calculated to make one popular with the stenographic department, particularly during the busy season.

Punctuation is another common source of error. You are all familiar with the comma "hound." He uses commas indiscriminately—so many to each page. Then there is the comma "saver." He never uses them. Now the use of commas, and other forms of punctuation, is very important. Certainly a professional man is expected to punctuate properly.

TECHNICAL POINTS

This brings me to the last matter to be discussed, viz., technical points. Among other matters which should be noted, are the following:

1. Spacing of headings of exhibits.
2. Folding of exhibits.
3. Ruling of exhibits and report.
4. Notation on exhibits of the state of incorporation of the company.
5. Method of showing deficit.
6. Cents in describing round numbers.
7. Use of commas in dates.
8. Position of footnotes.
9. Exhibit cross references.
10. Official position of officers and employees mentioned in report.

A number of the above items, such as the spacing and ruling, have to do with the stenographic department. Nevertheless, it is important that the accountant should check such details before his report leaves his office. Perhaps the most important item mentioned is the position of footnotes on financial statements. It is well to place these above the totals so as to prevent their being cut from off the statements. Sometimes it is of the greatest importance that a financial statement be read in conjunction with the report. Certainly in such a case the note "Accompanying report of " or "Subject to the comments contained in report dated ," should be typed where it can not be removed.

A word of caution regarding cross-references is in order. The description of an item in an exhibit wherein it originally appears should be the description used in referring to that item elsewhere in the report. For example, a discussion of "net profit" may be set out in the body of the report, but the figures used may be those described in the profit-and-loss exhibit as "profit from

operations." In this case, the error lies in the description used in the report. Again, the profit-and-loss exhibit may describe the final figure as "net profit for the year ending," while the balance-sheet describes the item as "profit for year."

Just a word concerning the use of personal names in the report. Always remember that the reason reference is made in your report to John Smith or William Jones is not that they were so christened but that they happened to occupy the position of treasurer or purchasing agent, etc., at that particular time. The official position should always be stated. The names of the incumbents are incidental.

In conclusion, here are a few "don'ts" which are worth keeping in mind:

1. Don't feel your efforts are wasted even if most of your draft is consigned to the waste basket.
2. Don't tire when half-way through your report.
3. Don't rely upon some one else to detect your errors or to check figures you use.
4. Don't rely upon the stenographers to fill in commas, exhibit numbers, etc.
5. Don't impose upon the stenographers by sending them drafts which are illegible. Write clearly.
6. Don't feel you are through with a job once the report leaves your office. Review your reports in your available time.