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Report of the President

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Report of the President *

I had in mind the presentation of a short report, but after a few attempts I gave it up. There are four or five times as many members who are absent as those within the sound of my voice. It may be a violent assumption but I like to believe that most of those who are not here today will be interested in reading this report.

Our profession is made up of all manner of men, practising accounting under all sorts of conditions, facing all kinds of problems for their clients, their communities, and themselves—men of widely varying training, background, experience, opinions, activities and relationships.

American accountants traditionally have been great individualists, who surrender their opinions and their freedom of action to no one; and I hope this will always be true of the members of our profession. At the same time, these days are bringing to us a baffling sense that the individual accountant can not do much to change or correct the conditions which beset the profession, and that accountants must think and act together, through their local societies and through our national organization in order to accomplish effective and substantial results. As never before in the history of our profession, its members are being drawn together, in realization of an urgent need for concert of action, in matters which concern their profession and their country.

In many states, the state societies have long been strong, active, courageous, and in quiet, practical ways have accomplished many things, by which they have won a great deal of confidence, on the part of the press and the people. In some few states, the organizations have not yet become robust or courageous; they appear to do little beyond holding an annual meeting; they have not yet responded to the awakening spirit of many of their members.

THE MOST SIGNIFICANT PRESENT TREND IN THE PROFESSION

If I were to sum up in a sentence the strongest, surest impression I have formed during my year in the presidency of the American Institute, it would be this:

The accountants of America are swinging into organized action, to face and deal with the problems which concern their profession and the public.

* Delivered at the annual meeting of the American Institute of Accountants at Dallas, Texas, October 20, 1936.

The men who by energy, brains, character and experience, have the aptitude for leadership are putting in an appearance at accountants' meetings, almost everywhere, and are quietly making their influence felt and are gradually increasing their interest in their state societies. By that, I do not mean necessarily well-known names or accountants for the largest clients; I mean the best types of accountants in general practice.

Whether or not we would have wished for it, the existing conditions of the profession and our country have brought American accountants face to face with the task of organizing their profession, in every locality and state, as well as in the nation, so as to make it of greater service to the public. The challenge given must be met or declined; the answer given will have its consequences.

IMPORTANT PRINCIPLES OF ORGANIZATION

For your consideration, I submit several principles which, it seems to me, should be controlling and decisive and should be given practical and actual fulfillment, in whatever is done by way of the better organization of accountants.

First: Accountants and the accountancy profession exist as a means of public service; the distinction which separates a profession from a mere means of livelihood is that the profession is accountable to standards of the public interest, and beyond the compensation paid by clients.

Second: The organization of accountants into responsible professional groups is particularly charged with a sense of fealty to public rather than to private or purely professional interests; and the form and extent of an accountants' organization should be considerably determined by its suitability and readiness to promote the public welfare.

Third: There are many matters as to which the public is entitled to the advice and judgment and public-spirited leadership of the accountants—not of a few, not of a selected minority, but of a substantial majority or of the whole profession; and it follows that the organization and leadership should be such as to give to the public the benefit of the disinterested counsel and advice of the rank and file of the profession, rather than of any minority, however wise and patriotic that minority may be.

Fourth: In view of that need for public-spirited majority leadership, it is clear that the organized profession should be self-governing and independent, should be fully representative of the profession, should be kept free from any manner of political or factional control and free from intimidation by government or by special interests, and should at all times seek to serve the public interest as to matters within its province. Better no national organization at all than one which is intimidated or controlled by partisan politics, is subservient to clients, or is lacking in the courage to fulfill its independent public functions.

There are many matters on which effective leadership of a nation-wide scale is required from American accountants, unless the public welfare and the prestige of the profession are to suffer. Time permits mention of only a few of these major objectives of the organized profession:

The protection of the public through Requirement of Adequate Education and High Ethical Standards for Admission to the Profession.

The present members of the profession owe to the public the duty of seeing to it that those who come into the ranks of professional accountants are adequately equipped, by education, training, background and high ethical standards, to take up and carry forward in a competent and honorable way the complex and responsible tasks now entrusted to our profession.

The unprepared and the unfit must be kept out of an honorable profession, else the profession will be held responsible and culpable.

Perhaps this is a difficult and a bewildering time; but the practice of accountancy has never been easy and the avenue to advancement and assured success has never been a leisurely road; and I doubt if it ever should be.

In any event, this is a good time in which to be young and to have life ahead, and is a most interesting, fascinating time in which to practise accountancy. As attractive a life and career as I know of, for any young man today, is that of a public accountant in general practice, in one of the smaller cities and towns of this country. The young accountant who is making his own way on his own merits, in a community which he knows well, is likely to gain a sense of independence, security and usefulness, which is a most valuable possession in life and is too rarely won in business or other vocations.

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Whether we like it or not, the conditions of the present century have made the individual voice of ever decreasing significance and influence in the formation of public opinion. I am referring now to accomplishments by a profession such as ours. I do not refer to political and similar issues.

It has become evident that the voice which is increasingly heard and heeded is that of institutions and large groups, rather than individuals. Even when the utterances of an individual command attention because of dramatic values, the effect on public opinion is usually slight. The views that carry weight are those expressed by large and well-organized groups, or by institutions of independent standing.

The consensus of opinion reached by a large and representative group is listened to with a respect, and given often a weight and practical effect, that is denied to the most conspicuous individuals.

The Protection of the Public Through Driving the Unscrupulous and the Unfit out of the Profession.

I am happy to be able to report that, in very many communities, the state societies have gone into action to fulfill our responsibilities and duties to the public in this regard, and I believe that the movement will become general.

Around the fringes of this profession, as of every other profession and business I know of, are a relatively few accountants who lack the ethical standards and the traditions of honorable and competent work for clients. Whenever a client is betrayed or poorly served by one of these unworthy members of the profession, the whole profession, all of us, are severely blamed, public confidence is undermined, and those who would destroy the integrity and independence of the profession in America rush into the press with wholesale indictments based on solitary instances. Business men know that these few offenders are not typical of the whole profession; but we have only ourselves to blame if we do not insist upon having both the power and the responsibility to make professional discipline effective and drive out from our ranks those who have proved themselves unworthy, and who tend to bring the whole profession into disrepute. The task is one for state societies, in giving practical effect to national-wide standards.*

* The foregoing is taken almost entirely from the annual address of Judge Ransom, President of the American Bar Association. Its application to our profession at this time is so obvious that I could not improve upon it. In many instances, I merely substitute the word "accountant" for the word "lawyer."

ACKNOWLEDGMENTS

During the past year the executive and other committees, as well as the secretary and his staff, have accomplished an enormous volume of excellent work. The profession is richer due to their efforts. The reports will in some measure speak for themselves, but much has been done which, formally, can not be reported upon at this time. In addition, the ground work has been laid for meritorious projects, the benefits from which will accrue to the future.

There has been no period of time from the adjournment of the annual meeting in October, 1935, to this date which has not been marked with intense activity on the part of the executive and other committees and the secretary and his staff.

Perhaps the most important committee achievements in the year are the revision of the federal reserve bulletin, completion of the revised report on accounting terminology, the appearance of the committee on federal taxation before the senate finance committee on the new tax law, and the advice rendered the securities and exchange commission and the power commission by the two special committees which coöperate with those bodies. Among other important activities are those of the committee on professional ethics, which, while it has filed no formal charges, has dealt with quite a large number of inquiries and informal complaints, some of them rather difficult. The board of examiners continues to supply examinations and grading services for thirty-six states and territories. The library and bureau of information serve more accountants every year.

THE MERGER

I have unbounded confidence in the wisdom of the merger of the American Society with the Institute. If any part of the responsibility for its consummation lies on my shoulders, I gladly assume it. But the credit and the responsibility alike belong to those leaders who put the good of the profession as a whole above all other considerations. We are especially grateful to the Institute's committee, to the committees of the Society and to the Advisory Council of State Society Presidents.

We can forget the misunderstandings of the past, if any. In a few weeks all details will be completed, we will go forward with all of our united strength of numbers and purpose, but for the sake of the permanent record I would like to quote from my

presidential address to the New York State Society of Certified Public Accountants on July 25, 1923.

“It is as great a mistake to attempt to build up two strong and representative national organizations as it would be to maintain two equally strong state organizations. If the membership in two national bodies were the same we could rightfully be accused of wasteful duplication of effort and money. If the membership is not the same, each member naturally will be loyal to his own organization. It will never be possible to induce the public to devote enough time and patience to the study of the subject for it to understand why two national bodies should be maintained, even if to the practitioners there may appear to be sufficiently good reasons. We would be convicted of inefficiency in our own household, and our suggestions to clients to eliminate unnecessary time and money in their affairs would inevitably lose much of their force. There is no shadow of excuse for two national bodies with similar aims in the same profession. There is little excuse for two national bodies with different aims. The reasonable aims of all practitioners, members of the same profession, must be the same. . . .

“The professional accountants of the United States form one group, and in order to retain our present prestige and extend it, we must maintain in each state one dominant society and in the nation, one dominant national body. Nothing would be more prejudicial to our standing than a charge that we who profess to advise others in organization methods do not ourselves know how to organize. If there were to grow up two national bodies, each with expensive offices, each duplicating most of the efforts of the other, with the same apparent aims, no matter how important the issues between them might appear to be to the members, the public—our clients—will never recognize the fine distinctions we see, but will condemn us, and properly so, for inefficient and expensive methods. And it might be embarrassing in many respects. What possible excuse could there be for two national codes of ethics? Or two national committees on standards of professional practice?”

What I said more than thirteen years ago I reiterate today. It is now up to us to justify the hopes and ambitions which have led to the merger. We can retain all of our personal views regarding administrative policies; we can criticize the officers who fall down on their jobs, we can reserve almost everything, but we must recognize that the business world looks upon the Institute as a professional entity. I am sure that with full loyalty to the high aims and purposes of the founders of our profession we shall maintain our well earned prestige.

THE ADVISORY COUNCIL

Although the Advisory Council of State Society Presidents was not organized until January 6, 1936, we have had its active and helpful assistance continuously since that date.

Our relations with the state societies are of major importance. The advisory council will provide a medium for utilizing the combined strength of the state and national organizations to a greater extent than either the society or the Institute has ever been able to do. During this year I know that we have become more state society conscious and that the state societies have become more Institute conscious than ever before. We have formed the habit of sending out letters to state society presidents on everything of general importance.

SERVICES TO MEMBERS

The Institute should be a militant organization. There is enough to do within the scope of our proper activities without meddling with affairs which are none of our business. But when we think it over there isn't much except religion and medicine and a few other activities which do not deeply concern us as professional accountants in our daily practice.

The well equipped professional accountant is a man of many parts. He must be, to deal even reasonably well, with the problems of every day commercial life. The Institute should draw on the older and more experienced members to help the younger ones over some of the hurdles of youth and inexperience.

For as many years as I can remember we have been told that the accumulated experiences and data in the profession would if arranged and published easily become a best seller. But we do little or nothing about it. Maybe it is wholly impracticable.

But in any event the Institute proposes to try. We have reorganized our information department. It is intended to be of special service to the younger members of the Institute. We hope to build a laboratory of records which will make it possible for the inexperienced to see in graphic form what the experienced have done. The results should be in the form of a circulating library available to members in any part of the United States.

I think the Institute should be looked upon by its members as an active technical partner. In most large successful corporations and partnerships research and statistical departments have been established. There are available technical advisors who are

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specialists. The ramifications of modern business and finance make it impossible for any one adequately to cover a general field of activity.

The Institute now has a plant and equipment which has never been used to its full extent. We propose to increase the facilities and enlarge the service to members. In addition to the physical equipment of the Institute we number among our members specialists in every branch of practice. Particularly among our senior members there are those whose experience and qualifications peculiarly fit them to speak with authority on any accounting problem or principle.

Some of these members in the past freely have rendered invaluable services to our members in every state. Obviously the Institute's own facilities must be located in one building, but the plan of operation enables practically equal service to the member in California and the resident of New York. No charge is made for the services unless answers are requested by telephone or telegraph,—in that case the inquirer pays the cost.

Reference is made in the secretary's report to one of the recent and highly important activities of the committee on research and information service.

WASHINGTON OFFICE

I regard as a matter of the highest importance the maintenance of an office in Washington. It need not and should not interfere with the administrative work which must center in our own building in New York.

There are certain activities which are peculiar to our national government and are not well done from a distance. I can not take the time to mention the many arguments in favor of a Washington office.

Provision has not been made for the expenses incident to the conduct of such an office. I think it is in order for the matter to be referred to the council by this meeting with the hope that funds may be found for the purpose.

DUES AND APPLICATION FEES

What we all want is maximum benefits at minimum cost. At the present time our essential activities require annual dues of \$25 a year. Even so, certain desirable expenditures have not been possible. Most of our members have paid an application fee of

\$25, which has been waived for a brief period. With a substantial increase in membership in sight, I think we should work toward lower dues, always provided that important activities be not curtailed.

I believe that the Institute should include in its membership every member of every state society. It would make the Institute truly a national organization. We can then in coöperation with state societies ask bankers, credit men and others to discriminate in the assignment of accounting engagements between certified public accountants who belong to their state and national organizations and those who do not.

I would suggest that the board of examiners change their rules and that we amend our by-laws as follows:

Application fees—

To members of state societies	\$10
To non-members	25
Annual dues when we reach 5,000 and up to 6,000 members, to be reduced to	20
When we reach 6,000 and up to 7,000 members	17.50
When 8,000 is reached	15

OUTSIDE RELATIONS

I think it could be safely asserted that the Institute's and, therefore, the profession's, relations with the public at large are stronger than ever before. Certainly the way in which our advice has been sought by the securities and exchange commission, the federal power commission, the interstate commerce commission, the stock exchange, and the American Petroleum Institute, as well as the way in which we are generally received by the National Association of Credit Men, Robert Morris Associates, treasury department and all the other organizations we have dealt with shows that the certified public accountant is assuming greater stature in the public eye. I think our publicity efforts have helped in this direction. We have had a very large number of favorable press notices during the year.

INCOME-TAX LEGISLATION

In this country income-tax legislation has become a major menace. Both political parties are to blame. The inevitable result of unsound, unfair, discriminatory tax laws is first to create resentment, then to stimulate attempts at avoidance, and finally

evasion. It was so under prohibition. The more complicated any income-tax law becomes the easier it is to arrange one's affairs to avoid payment.

The result in this country has been that taxpayers with competent advisors have been able to take advantage of complicated and ambiguous sections of the law and have paid less than they should have paid, and the ignorant have paid more.

The British law and British practice are held up to us as far superior to our law and our practice. The statement had been made so often that I believed it. I was shocked a few months ago to learn that, like many other oft repeated sayings, it is greatly exaggerated and that the defects in the British law and practice are substantial. As a great proportion of our difficulties have been constitutional and as the British have no constitution it may be that we are no worse off than they are.

As no one else has done anything about it, I propose that the Institute set up an income-tax law drafting bureau with a competent staff and that in collaboration with the American Bar Association we prepare a model form for a law which will observe the sound maxims of Adam Smith, so often repeated and so little observed.

We should have it ready by the summer of 1938 and endeavor to obtain pledges from every candidate for congress to support it. In my opinion, it can be short and simple. We can omit rates and thus avoid any charges of interference with the duties of congress. It is well known that accountants have not opposed high income-tax rates when imposed upon realized income and ability to pay.

NATURAL BUSINESS YEAR

Next to the merger our chief activity during the year has been in connection with the natural business year campaign. For many years our efforts were restricted to an educational campaign directed by ourselves. We made no appreciable progress. Last winter we decided to proceed on an entirely different basis. We asked our friends particularly among credit grantors to lead the movement, believing that messages from sources other than ourselves might succeed where we had failed.

We have reason to believe that the experiment is a success. The secretary's report deals with some of the details. It will take several years to accomplish definite results.

We are grateful to those without whose help little could have been done. Let us show our gratitude by greater usefulness made possible by a distribution of our work over the entire year.

Through the natural business year campaign we have established intimate relations with trade and business organizations and government departments with which we were only slightly acquainted before. State societies can do the same thing in their own territories. Thus, the natural business year campaign can be helpful to accountants in two ways, one by spreading work throughout the year and the other by giving them a subject to discuss with trade and business organizations and government departments.

FIFTIETH ANNIVERSARY

Next year marks the logical time to celebrate the fiftieth anniversary of the organization of our immediate predecessor, the American Association of Public Accountants. We have a record of which we can be proud. The celebration should be worthy of the occasion. I am sure that the committee in charge will not fail to make the fiftieth anniversary memorable.

I ask the interest and support of every member of our organization. We have an opportunity to show the world what we are, what we stand for and what we aim to accomplish in the next fifty years.

NATION-WIDE STANDARDS OF PROFESSIONAL CONDUCT ARE NEEDED

In the formulation and maintenance of professional standards a single state or locality can not achieve the desired objectives. Each state society can contribute its part to the consensus of informed opinion and action, but that is not enough.

If nation-wide standards and nation-wide leadership in vital matters are expected from our profession an effective national organization is plainly necessary; an inadequate and ineffective organization deprives the public of an aid and adjunct to which they are fairly entitled.

I hope we can pass the details of professional standards without disagreement. The honest man rarely talks about honesty. During the past year there has been no change in the standards of the Institute. Changes in by-laws and changes in rules of conduct mean little. The day by day conduct of our members means a

lot. Let's debunk those who unfairly criticize the standards of others and whose personal standards are not above reproach.

I find it difficult to express my thought regarding the element of independence, which is closely allied to professional standards. We say glibly that independence is the professional accountant's capital as well as his sacred honor; and we say that no professional man can be unmindful of the opinions of his fellow practitioners, the code of ethics and many professional amenities, all of which must be followed, obeyed and perhaps suffered in order that the profession may live. Truly we have chosen a difficult path in life. I can do no more than reiterate what those who have preceded me have said. There is nothing new under the sun. But we have the younger men, the students who are entitled to the best we can give them out of the richness of our experience and our failures. And as we think of our failures let us resolve to be tolerant of the shortcomings of the uninformed and the inexperienced and the more their need the more tolerance we should show.

Let us be strict in discipline but always be just in our decisions.

ROBERT H. MONTGOMERY