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Editorial

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The Journal of Accountancy

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A. P. RICHARDSON,

Editor

EDITORIAL

Professional Ethics

The number of circular letters emanating from stationers, office supply houses and similar concerns offering commissions to accountants for any contracts which they may be able to place on behalf of clients indicates that there must be now and then an accountant who is ignorant of the laws of ethics or wilfully flouts them.

Recently a member of the American Institute of Accountants forwarded to this office a letter from a New York concern in which the following paragraph appeared:

“We can make you an attractive proposition whereby we give you 5% commission on any contracts your clients may give us at your instance, or if you prefer you can make the contracts direct with your clients and sublet them to us, in which case we could give you the quotation.”

Other offers of the same kind, some of them implying a belief in a much more debased condition of practice have been distributed within the past few months.

Of course, even in purely commercial undertakings it would not be free from objection if an agent were to accept commissions for contracts placed on behalf of a principal in the way inferred in the letter above quoted, but in the case of a professional practitioner the offense would be far worse.

The American Institute of Accountants has laid down a code of ethics and is adding to it year by year as cases arise which call for a more particular expression of the practice approved by the best thought in the profession.

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The code contains a specific prohibition of commissions of any kind. Possibly if this fact were brought to the attention of stationers and others who are guilty of offering commissions they might be inclined to a feeling of greater respect for the profession which they now insult.

Repeated inquiries are received as to what are the rules of conduct approved by the institute. In response to that request we publish herewith the code as it was amended at the time of the annual meeting in September.

Not only will the rule against commissions be read with interest, but that relating to contingent fees is of peculiar importance at this time in view of the temptations of income tax practice. Other rules in the list are also of continuing value and importance.

AMERICAN INSTITUTE OF ACCOUNTANTS RULES OF PROFESSIONAL CONDUCT

Including amendments and additions prepared by the committee on professional ethics and approved by the council prior to September 30, 1919.

(1) A firm or partnership, all the individual members of which are members of the institute (or in part members and in part associates, provided all the members of the firm are either members or associates) may describe itself as "Members of the American Institute of Accountants"; but a firm or partnership, all the individual members of which are not members of the institute (or in part members and in part associates), or an individual practising under a style denoting a partnership when in fact there be no partner or partners, or a corporation, or an individual or individuals practising under a style denoting a corporate organization shall not use the designation "Members (or Associates) of the American Institute of Accountants."

(2) The preparation and certification of exhibits, statements, schedules or other forms of accountancy work, containing an essential mis-statement of fact or omission therefrom of such a fact as would amount to an essential mis-statement, shall be, *ipso facto*, cause for expulsion or for such other discipline as the council may impose, upon proper presentation of proof that such mis-statement was either wilful or was the result of such gross negligence as to be inexcusable.

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(3) No member shall allow any person to practise in his name as a public accountant who is not a member of the institute or in partnership with him or in his employ on a salary.

(4) No member shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to others as an incident of his services to clients.

(5) No member shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the executive committee or of the council is incompatible or inconsistent therewith.

(6) No member shall certify any accounts, exhibits, statements, schedules or other forms of accountancy work which have not been verified entirely under the supervision of himself, a member of his firm, one of his staff, a member of this institute or a member of a similar association of good standing in foreign countries which has been approved by the council.

(7) No member shall take part in any effort to secure the enactment or amendment of any state or federal law or of any regulation of any governmental or civic body, affecting the practice of the profession, without giving immediate notice thereof to the secretary of the institute, who in turn shall at once advise the executive committee or the council.

(8) No member shall directly or indirectly solicit the clients or encroach upon the business of another member, but it is the right of any member to give proper service and advice to those asking such service or advice.

(9) For a period not exceeding two years after notice by the committee on ethical publicity no member or associate shall be permitted to distribute circulars or other instruments of publicity without the consent and approval of said committee.

(10) No member shall directly or indirectly offer employment to an employe of a fellow member without first informing said fellow member of his intent. This rule shall not be construed so as to inhibit negotiations with any one who of his own initiative or in response to public advertisement shall apply to a member for employment.

(11) No member shall render professional service, the anticipated fee for which shall be contingent upon his findings and results thereof. This rule shall be construed as inhibiting only services in which the accountant's findings or expert opinion might be influenced by considerations of personal financial interest.

Tax Return Makers

From time to time we have published in these pages examples of letters of solicitation sent out by so-called tax experts. One of the most noteworthy came to hand recently addressed to the American Association of Public Accountants.

For the benefit of those who are unfamiliar with the ways of some of the "tax experts" we publish the letter herewith and draw particular attention to the statement that a saving can be effected in all cases:

July 9, 1919

AMER. ASSN. OF PUBLIC ACCTS.

1 Liberty Street, City.

Subject—Capital Stock Tax Returns

GENTLEMEN:

For the past fifteen years I have been engaged in various financial and accounting departments of the U. S. Government, and during the past year have been employed as an examiner in the capital stock tax division of the Bureau of Internal Revenue, Treasury Department, Washington, D. C. As a result I am familiar with the departmental methods of determining the fair average value of the capital stock of corporations, and am in a position to advise as to which exhibit could best be used in the interest of your client, or on what percentage earnings could properly be capitalized.

I would consider a working arrangement whereby I could devote a part of my time to handling your capital stock tax business. The detail we can discuss to better mutual advantage in a personal interview. Without any knowledge of the returns your clients will make for 1920 or those filed for 1919 there exists no doubt in my mind as to my ability to show a saving.

Trusting you will grant me the courtesy of an interview for the purpose of discussing the matter further, I am

Very respectfully yours,

Value of Audited Statements

Accountants have been preaching the doctrine of the value of audited statements for so many years that they sometimes become discouraged at the apparently slow progress which the campaign of education makes. There is, however, a steady and gratifying spread of appreciation of the facts, and business men as a rule are ready to admit that there is a distinct advantage to be derived

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from the services of an auditor. Ultimately of course the audited statement will be universal where modern methods prevail, but it is with present developments that we are now concerned.

Bankers have refrained from insisting upon audited statements chiefly because of the fear of driving away customers. If one bank required audited statements and its neighbor across the street did not, it has been the belief that there would be a large number of customers going to the second bank and reducing the volume of business of the first.

Bankers recognize the facts, however, and it is gratifying to find publication of the facts where it will do much good.

As an illustration we quote the following from the *Bulletin* of the New York Credit Men's Association of November, 1919:

THE VALUE OF AUDITED STATEMENTS

It has become the custom among many progressive manufacturers and merchants to have attached to their financial statements the certificate of a competent public auditor, and several prominent New York banks and commercial note brokers are endeavoring to make the custom universal. If the business men of the country generally would fully realize the prestige given their paper in the open market by an audit of their books they would take steps in this direction at once. The city and country banks which invest their surplus funds in outside notes must rely very largely upon the statements presented to them by the note brokers, and where the statements appear on their face equally attractive the banks naturally give preference to the note of a house whose figures are certified to them by competent and disinterested public accountants. The banks and note brokers do well to insist upon audited statements in order to render their business safer, but the mercantile community as a whole has not yet fully realized the importance of the audited statement in finding a broader and more ready market in which to secure their requirements and the larger trade facilities generally that go with an unquestioned credit. Manufacturers and merchants should bear in mind that nothing will so well give them this unquestioned credit as an attractive financial statement whose figures are verified by public auditors of good repute.

It is to be hoped that the sound logic of the foregoing comment will impress itself upon those who read it.

Efficiency

If there is any one word in the vocabulary of which the public is heartily weary it is "efficiency." We have had so much talk of efficiency and so many fakers have paraded under the guise of producers of efficiency that it has become a word to be used seldom and with great care.

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Accountants especially should be wary of this badly strained word. There is a considerable portion of the public which has not learned to distinguish between the man who professes to understand the things which make for true efficiency and the man who really can bring about greater production and wider results in business, finance and industry.

It is always a matter of some gratification to us to learn of destruction of the efficiency bubble, and we believe that many of our readers have the same feeling. Accordingly, the following story from the *Washington Star* will probably appeal to a great majority of the readers of this magazine.

"Fads and crazes," said Representative Cordell Hull, of Tennessee, "invade the world of business the same as they invade the world of fashion. They soon die out, though.

"Take the scientific management craze. A young man applied to a friend of mine the other day in Nashville for a job.

"Look here!" said my friend, "your face seems very familiar. Didn't you use to represent the Efficiency Engineers' Corporation? You wanted me to let the efficiency engineers bring my business up to date, didn't you? What has become of the concern?"

"Busted, sir."

"Then you tackled me as the representative of a system. You called yourself an affairs doctor. You offered to put my affairs on sound, modern lines. Is that system busted, too?"

"Yes, sir; she's busted."

"Well, after that you got the lost motion idea. You wanted to prove that this back number mill of mine wasted over 70 per cent. of its time in lost motion. What about the lost motion company?"

"Busted, too, sir."

"Humph!" said he. "For years you've been offering to teach me my business and now, when your employers all go up, you ask me for a job. What use would you be to me?"

"With my varied and vast experience in such matters," said the applicant, "I'd be very useful, indeed, sir, in the event of your failure."

Auditors' Certificates

Every accountant has read or taken part in discussions as to the proper form of certificate, and we are gradually getting to a point where the public may expect to have all certificates so expressed as to be intelligible and comprehensive.

Occasionally in the past, however, there was a certificate which was more or less adequate to the occasion and we have recently received copy of one published by a railroad company which is of interest for its quaint phraseology and also for the accuracy and intelligibility of its construction:

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Copy of Auditors' Certificate

January 2, 1846

We have examined the treasure account for the year 1845 as stated on this page and find the same rightly charged, well vouched and properly cast and balanced and there is now due from the treasurer the sum of ten thousand, two hundred forty-two dollars and forty-nine cents which he will carry to new account with the corporation.

Signed by four directors