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10-1-1922

C. P. A. Bulletin, No. 11, October 1, 1922

National Association of Certified Public Accountants

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The C. P. A. Bulletin

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No. 11

The National Association of Certified Public Accountants
WM. DE LAROCHE ANDERSON, Acting Editor

Oct. 1, 1922

A NATIONWIDE

Assurance and Trust

CREDENTIAL

For Expert Public Accountants:-

MEMBERSHIP CERTIFICATE

National Association of Certified Public Accountants

Over three thousand high grade, practicing public accountants, drawn from every State in the Union, representing, it is estimated, some sixty two thousand business and financial organizations and persons of the whole country, have joined together in association on the individual and collective acceptance of the principle that public responsibility, in relation with clients, rests upon the expert public accountant; that continued membership and benefits of such association shall be based upon living up to this responsibility and maintenance of sound practices.

Take this issue of the Bulletin now, together with the previous issue, No. 10., and show them and your signed "Individual Public Responsibility" identification card to any bank or other credit agency; to stockholders, investors and others and learn from the only source that counts, for yourself and for your clients, that the real actual value of the certificate of membership in such an association, given upon such basis, is a credential to inspire assurance in the work and trust in the worker - a thing of actual value - to the accountant and the client, not in one state, or two states, but in all States - from the Atlantic to the Pacific - from Canada to the Gulf of Mexico.

INCREASED MEMBERSHIP.

Application for the four degrees of membership, Junior, Associate, Fellow and Full member, are continuing to come in to the National Association in considerable volume. The Board of Governors and the Examining Board ask a little leniency from applicants in the matter of time necessary in properly passing upon their applications and ratings. It is impossible to do this work in a hurry and properly protect the Association from clever "frame-ups" by our friends of competitive organizations. In July, since the Washington injunction, 26 full members were examined and passed and in August 32, in the Eastern District, alone. Examinations for the practitioner whose large clientele supports his claim to proficiency, are oral and arrangements can be made by such persons for examination at a time and place convenient to them. Inasmuch as the identification card does not require signature it is always more quickly available, if the annual dues (\$10.) are paid with the fee, than the certificate, as the membership certificate has to be signed by the whole Board of Examiners and by the officers of the Board of Governors, numbered, recorded and then sent to the engrosser.

Effect of Unaccepted Public Responsibility.

In contradistinction to the individual and collective acceptance of the fundamental principle of public responsibility by the National Association it is interesting, especially to banks, credit agencies, stockholders and investors, to note the effect of the certification by certain certified public accountants, and members of the American Institute of Accountants not members of the National Association, who do not accept this public responsibility principle, in their practice, in the following typical instances:

Excerpt from a Pennsylvania case appealed from Common Pleas Court to Supreme Court. Edwin A. Landell Jr; appellant: Lybrand Ross Brothers and Montgomery, Appellees.

"The facts show, and it can be proven conclusively, that the defendant," (Lybrand Ross Brothers and Montgomery) through his agent, for whom he is responsible, who made the audit for defendant and who prepared the report of the condition of the company as of December 31, 1911, knew the same was fraudulent and false and was on its face deceitful and with evident purpose failed to disclose the true condition of the company.

Furthermore, it was the duty of the auditors when a few months later they made their confidential report to the directors in May, 1913, showing that the company was insolvent, not to rest with simply giving this information to the directors, but to also see that the stockholders received such information, which would show the auditors' certificate made only a few months previous was false and untrue, in order that the stockholders might, with such knowledge of conditions, have protected themselves and in such a vital matter not to depend upon the directors alone giving such information to the stockholders. The plaintiff was a stockholder of the company at the time of this confidential report to the directors. Therefore, then being a stockholder the plaintiff had contractual relations with the defendant and is entitled to damages against him, the case being on all fours with the English decision of *In re London & General Bank*, 2 Ch. Div. 673, 1895.

The Court said the balance sheet and certificate of February, 1892—that is, for the year 1891, was accompanied by a report to the directors of the bank.

Taking the balance sheet, the certificate and report together, Mr. Theobald stated to the directors the true financial position of the bank and if this report had been laid before the stockholders Mr. Theobald would have completely discharged his duty to them. Unfortunately, however, this report was not laid before the shareholders and it becomes necessary to consider the legal consequences to Mr. Theobald of this circumstance. . . . The fact, however, remains, and cannot be got over, that the balance sheet and certificate of February, 1892, did not show the true position of the company at the end of 1891 and that was owing to the omission by the auditor to lay before the shareholders material information which he had obtained in the course of his employment as auditor of the company and to which he called the attention of the directors."

One of the defendants in this case, Mr. Robert H. Montgomery, has written a book entitled "Auditing, Theory and Practice." Under the topic "Legal Responsibility of Auditors," this learned defendant, on pages 4 and 5 of his book, says:

"In my opinion the quickest way to weed out the incompetent men who now hold themselves out as public accountants would be to make them understand the civil responsibility of a professional accountant. Naturally, an unreliable, incompetent man cares nothing about his moral responsibility, and as long as he knows that American Courts have never laid down specific rules regulating the duties or obligations of public accountants, he probably feels safe from any legal responsibility. One sure and very desirable result of the weeding out process would be the raising of the professional standard, for a few irresponsible men can offset the good work of ten times their number.

"As is well known, there are numerous English decisions dealing with the rights and liabilities of professional auditors. In view, however, of the total number of years the decisions cover, the number does not seem at all appalling. While the fact that we have no reported decisions speaks well for the integrity and good judgment of our accountants, yet it is felt that occasions have arisen where a test case would have been made, had it not been known that any judgment involving money damages, which might have been rendered would have been worthless so far as the possibility of collection was concerned.

"The absence of decided cases does not alter the principle of law that any one who holds himself out to be skillful in any trade or profession and who is negligent in the performance of what he undertakes, becomes responsible in damages for such failure. This civil responsibility is settled and cannot be debated, but it should not be passed over lightly and should be emphasized on all occasions. The measure of legal responsibility, however, is much too low for a conscientious accountant."

This same authority on page 220 of this book, discussing the profit and loss account and the auditor's duty to his client in not permitting the business man to fool himself by including items in the statement which should not be included, says:

"But business men will fool themselves, and corporation directors will fool their stockholders and attempt to fool the public. However, a slight, but perceptible, progress is being made, and it is inevitable that some day the words 'net profit' will have the same meaning as the word 'sterling' on silver. The laws and customs will decree that the issuing of false statements, such as are now sent broadcast, will be a punishable offense."

In the ninth article, page 590, of the Summary in Montgomery's 1912 edition of "Auditing, Theory and Practice," it is stated:

Continued page 4.

Statements by Biased Organization

AGAINST

National Organization of Certified Public Accountants

GENERALLY IGNORED

Association continues to gain in every direction.

Concerning the generally circulated statements by the American Institute of Accountants, that it has or will put the National Association of Certified Public Accountants out of business through the injunction it claims to have secured in Washington, there need be no apprehension. The American Institute has had, according to various announcements, the National Association "out of business" ever since it was incorporated - and still it flourishes.

The National Association has come to stay, the American Institute to the contrary notwithstanding. It has more than twice the membership of high grade public accountants of the American Institute now and will have many times that membership in the not far distant future.

The National Association is growing month by month surely and soundly and steadily, despite all the cases in court, including the Washington case, which the American Institute may have directly or indirectly instituted against it.

Its membership is increasing, its influence is increasing and its value to business generally is increasingly recognized by business.

CONCERNING THE WASHINGTON CASE.

It is well to bear in mind that it has been quite clearly demonstrated by constant failures to score against the National Association in the courts of various States that the American Institute does not know the basic law as it relates to the profession of accountancy. And, that the American Institute has its back against the wall and is fighting desperately to regain its lost monopoly. In this light all its statements concerning the National Association and its activities, in court or out of court, must be judged.

To gain the real truth any person who cares to may read the short charter of the National Association and see that the National Association may select its members on its own basis and may designate them in certain grade of membership by the use of common words which the courts have said is not arbitrarily forbidden under State law and which words no educational institution in the world uses to denominate an academic or honorary degree, they may see in a recent decision of a New York court, rendered subsequent to the Washington injunction, that the designation of Certified Public Accountant is allowed to "members" of the National Association (Case: Botwin and Botwin) - not because they have an academic degree - not because they have an official certificate such as is issued by the various states but because they qualify themselves as "members" of a National Association of Certified Public Accountants, and, that it is **membership**, and not a title or the form or phrasing of a paper token, which is actually represented in the National Association as a basis for professional rating by the public and an acceptable support to the designation of membership—C. P. A., N. A.

Effect of Unaccepted Public Responsibility.

(Continued.)

"In the event of loss through an auditor's negligence the client may recover damages against him. The measure of damage is the amount which the client or other interested party has lost as a legal consequence of the auditor's failure to properly perform his duty."

Furthermore one of the defendant firm acknowledged to the plaintiff their liability in the matter to him, but refused to pay on the grounds that if they had also to pay the claims of the rest of the stockholders and creditors of the company it would cause them to become bankrupt.

Finally:

Appellant feels that he is entitled to have the same consideration of his rights in the premeises as the English Courts give their litigants, and that the defendants owe the same measure of justice in practice to the victims of their neglect of duty as the one of prescribed in their theory of the duty which their competitors owed in his book on "Auditing, Theory and Practice"—such consideration will take this case back to the trial Court for a jury to fix the amount of plaintiff's recovery.

We respectfully ask this Court to reverse this case or reward for a jury trial.

WILLIAM T. COOPER,
Attorney for Appellant."

ANOTHER INSTANCE.

Winthrop Smith & Co., a stock trading organization, which circulated to obtain business, a statement showing certain stocks purchased and sold which yielded a net profit of 41.51% for one month.

The following Certified Public Accountants Certificate was made part of this statement and was rendered about fifteen days before the company went into the hands of a receiver.

PENN AUDIT COMPANY CERTIFIED PUBLIC ACCOUNTANTS

Winthrop Smith & Co., New York, August 31, 1922.
1540 Broadway,
New York City, N. Y.

Gentlemen:—Pursuant to your instructions, we have examined and verified the transactions recorded under the account "Participating Syndicate" for the month of August 1922, and certify that each transaction is confirmed by the stock brokerage firm in which such trade was made, and that each such transaction is an accurate and correct bona fide purchase or sale.

Respectfully submitted,

PENN AUDIT COMPANY
Certified Public Accountants
(Signed) H. N. Herber, Jr.

Let George Do It.

It is interesting to note from circulars sent out by the Institute of Chartered Accountants, that that most worthy organization has no fight with any other accounting organization and that it does not object to other organizations paying high salaries to officers even though The Institute itself pays none.

The National Association has opposed and is opposing and will continue to oppose certain other organizations in the profession, not as organizations, but as exponents of organizational principles and practices which are considered to be seriously detrimental to the profession of accountancy and to the business and public interest and which violate usual traditional American methods and customs. To have successfully done this and to successfully continue to do it has required and will continue to require the entire time and attention of a high grade official staff, which while able to command much higher compensation than is paid it by the National Association, can not render this service entirely without compensation, especially when under the expense of living away from home to maintain a national headquarters at the National Capital for the profession.

Inasmuch as none of these officers without exception has received more than \$4000 for their salary and expense since the incorporation of the National Association in June of 1921, to date, over a year and a quarter, it is presumed that the "high salary" dig administered by the Institute, in its literature, is aimed at others than the National Association with possibly only a criticism directed toward the National Association for not getting its officers to maintain themselves and give their services in Washington for nothing.

Inasmuch as the Institute of Chartered Accountants has adopted from the National Association to the letter the fundamental principle, which is the bone of contention between the National Association and its opposing organizations, of continuing individual public responsibility and ability being the prime value in attested public accountants and not that of a mere nunc pro tunc rating, based on a scholastic test, through the medium of a continuing credential, it would appear from this literature that the Institute, in having no fight with other organizations which oppose this principle as represented in and by the National Association is going to sit quietly by and "let George do it" in the matter of having this principle win, making capital meanwhile out of the cost of the operation.

This does not sound like California - it does not sound like "Chartered Accountant" and it is not believed by the National Association of Certified Public Accountants of the Institute of Chartered Accountants, seeming implications in its literature to the contrary notwithstanding.

Question Your Congressmen.

All Senators and Representatives are now home from Washington and are available to you to inquire as to how they stand on national legislation as it concerns the profession of accountancy.

In Washington Congress took action on proposed legislation which would indicate that it was lead to believe despite the testimony of the officers of the National Association to the contrary, that state law arbitrarily forbids the use of the words Certified Public Accountant or C. P. A.

In the light of recent court rulings which have, in every instance, borne out the contentions of the National Association in the states, it would be well to make a point of acquainting your member in Congress, Senator or Representative, or both, that at best National legislation whether for the District of Columbia, or general, along the lines of present state laws will only serve to extend the present field of litigation, with nothing of real protective value to the profession or to the public gained, even in the event that such enactments are not, from one angle, declared unconstitutional, or from the other, are declared by the courts as failing to carry the special privilege, which is the real motive back of them and which special privilege state courts have already determined they do not carry.

Now is an opportune time to show your representatives the importance of comprehensive legislation, protective to the public in character, owing to public interest in the work of the public accountant, as that of an expert disinterested specialist who serves as the voice of general credit and commerce, and national in scope, owing to that fact that the effect of this functioning is nationwide, unsusceptible of confinement within any prescribed political boundaries and reflecting in and a medium of expression of the Commerce, credit and finance of the Nation.

It is an advantageous time to point out to them that the laws of no single state nor does the law proposed by them for the District of Columbia control the practice or malpractice in any way, whatsoever of the public accountant other than giving to or taking from a few of them a piece of paper which even when revoked the Public Accountant still may practice or continue to malpractice at will and as before and to certify accounts and statements upon which other peoples money is advanced. And, most important, it is timely to present to them the fact that the personal acknowledgement of the principle of individual public responsibility, attaching to those who makes reports, upon which public and banking credits and money payments are made, is entirely unrequired in any public accountancy act in any state or by any State Board, leaving only to The National Association of Certified Public Accountants and to the Institute of Chartered Accountants, of California two private corporations, the task of protecting the public and the right minded professionals in this fundamental respect, which Great Britain and other countries far older in the game than we are have long acknowledged and have intelligently provided for.

Your Congressmen should thoroughly understand on their return to Washington that a scholastic test for a credential is a meaningless proposition so far as the protection of public and the control of the practitioner is concerned when the practitioner may do exactly the same things without the credential as with it.

Dallas Man Elected Head of Chapter of National Association.

Members of the Texas chapter of the National Association of Certified Public Accountants met Saturday at the Oriental Hotel in their first annual session. Temporary organization was effected at a meeting in Dallas several months ago. Permanent officers were chosen yesterday. It was decided to hold monthly meetings for discussion of problems of interest to all business men, professional men and others in the keeping of accounts for their business and for careful rendering of income tax returns and other taxation.

There was good attendance from all over the State. The business session had D. P. McAlpine of Dallas, as chairman, he being temporary president of the organization from its founding. Lunch was served in the meeting room. Officers elected were D. P. McAlpine, Dallas, president; W. H. Paine, El Paso, vice president; R. M. Pitner, Fort Worth, secretary. Members of the executive committee elected in addition to the officers are J. A. Penney, Fort Worth, and J. P. Kinney, Dallas, for three years; S. J. Nadel and L. O. Dalley, Dallas, for two years; J. R. Maceo, Fort Worth, and J. T. Lynch, Dallas, for one year.

Reports were read by the delegates who attended the national association meeting in Washington, D. C., in June.

The Texas chapter adopted a resolution approving what the national association has done, including its handling of the attacks that have been made upon the movement, the ethics and the aims of the association.

The Texas association planned for meetings to be held every month through the fall and winter.

State Chapters Meet.

New York State Chapter of the National Association of Certified Public Accountants held the first monthly meeting of the Season at the Waldorf-Astoria Hotel on the evening of September 20th. There was a very large attendance. Mr. Frank Broaker, Chairman of the State Protective Committee presided. The business undertaken was the completion of State organization. It is expected to hold these meetings at the Waldorf monthly and an attractive program is being arranged. The local officers and committees will be announced at a later date.

WHAT WE ARE SEEKING

So long as the National Association is gaining the interest and co-operation of business men and financiers, as is evidenced by the following typical letters, the contention of the little organizations or jealous individuals of the profession are of little importance to the National Association or its members.

The U. G. I. Contracting Company

Broad and Arch Streets,

Philadelphia,

MAIL ADDRESS
P. O. BOX 1902

September 16, 1922.

Wm. De Laroche Anderson, Acting Editor,
National Association Certified Public Accountants,
Franklin Bank Building, Washington, D. C.

Dear Sir:-

Referring to your Bulletin No. 10 of September 1st, 1922, could I have one-half dozen copies of this Bulletin?

I would like to have them for the use of our President, Mr. Paul Thompson, who is also Vice-President of The United Gas Improvement Company and a Director in the Corn Exchange National Bank and other institutions here in Philadelphia.

If there is any charge for these copies I will be very much obliged if you will send it to me and I will see that you are remitted for it at once.

Yours very truly,

WESTON J. HIBBS, Treasurer.

September 15, 1922.

Dear Sir:-

We would thank you to mail a copy of the C. P. A. bulletin of July 20th and September 1, 1922 to the following:

(Five names and addresses omitted.)

It just occurred to me that the leaflet, making reference to the National Association's principle of individual public responsibility of which you state that there is no general law which makes the public accountant responsible and further down "ask to see your accountants individual responsibility card" should be enlarged to about the size of your membership certificate and distributed to the members with the request that the same be framed and hung in the office as a great advancement and a stand toward betterment in the meaning of certificates.

Yours very truly,

Notice To Members.

In connection with a successful economic administration of the co-operative National Service outlined on following page., it will be necessary for members to report to National Headquarters all requirements of clients along this line for an original general approval and acceptance and for selection, advice, direction, co-ordination, and supervision of the accountants, in various parts of the States, Nation or Foreign Countries, involved in each particular service.

This service will be outlined more in detail as the demand for it develops.

Always remember that being a member of the National Association gives you a range of service to offer to clients which far exceeds anything which any of the large "contracting" firms can offer.

Pennsylvania Starts Organization.

A start has been made in this organization of the State of Pennsylvania by the resident members of the National Association of Certified Public Accountants. This has taken the form of the organization of a municipal unit in the city of Philadelphia before the organization of the State Unit. In this respect Pennsylvania is starting at the bottom and building up which reverses the procedure adopted by other states.

The New Jersey Chapter of the N. A. C. P. A. held its regular meeting at Newark, N. J. on September 20th. State affairs were discussed, and arrangements were made to further the interests of the Association within the State. Mr. William M. Williams the president, presided.

When a man goes to law he retains a lawyer.

When he's sick he gets him a doctor.

When he builds a bridge, an engineer.

When he makes an investment or speculation or gives credit, how often does he consult a accountant before rather than after he gets in trouble.

"AN OPPORTUNITY FOR SOMEBODY."

American, 49 years of age, education: high school. law and accountancy, 20 years experience as public accountant, also filling such positions as auditor of Real Estate and \$13,000,000. Construction Co., auditor of Steel Co., auditor of one of the largest lumber mills in the South: capable of handling any accounting or cost proposition, no matter how large desires permanent position with responsible firm where ability to secure results without disorganizing business will be recognized. Salary at \$5000 per annum until such time as result of work clearly demonstrate real worth. Will travel or go anywhere.

Address

MELVILLE D. THOMAS

109 Wethersfield Avenue,
Hartford, Connecticut.

Phones:

Stuyvestant 0831 New York, N. Y.

Franklin 1646 Washington, D. C. 63 Fifth Ave., New York

WILLIAM DE LA ROCHE ANDERSON

Representative

COUNSEL.

Business	Finance	Taxation	Accounts
Advice	Assistance	Presentations	Reviews
and	and	and	and
Representation	Planning	Briefs	Consultations

Acting Editor & Counsel

National Association

Certified Public Accountants

Contributions of business and professional interest, and advertising matter to reach, through a special list of over three thousand "business advisors", the operating requirements of business, are requested for publication in The C. P. A. Bulletin.

Advertising rates on application.

NATIONWIDE CO-OPERATIVE

Creditors and Investors Information Service

PRACTICAL AND ECONOMIC VALUE

of National Association.

Each and every member of the National Association of Certified Public Accountants may, no matter where he may be located, offer to his cliental present and prospective, a service which is nationwide in scope and one extending even to England, France, Germany, China, Japan, South America, Canada and Mexico along the lines indicated by the following:

Boston, Mass.
Sept. 2, 1922.

Dear Sir:-

Can you give me any information as to the financial condition of the Pittsburgh Coal Co. and the desirability of holding the common stock at this time.

Yours truly,

New York, Sept. 8, 1922.

Answer:

Dear Sir:-

We are sending you the enclosed superficial summary report which, so far as present prospects for the common stock is concerned, is not cheerful. The report is based on published information and upon such further information as is available to us through the large professional membership of our National Association. If you desire to have further and more detailed information, or wish to have the information given more fully and completely explained we will have a capable Boston accountant member of the National Association call upon you at your convenience. This service, so far, has entailed no charge.

Yours very truly,

New York, N. Y.
August 28, 1922.

Another Answer:-

Dear Sirs:-

In answer to yours of August 24 would say that the particular information you desire concerning the California Corporation mentioned can only be accurately secured in California, Illinois, and New York, by investigation and by a consolidated report. It would appear advisable owing to the extent of your interest to have this matter carefully gone into. If you desire we can arrange with competent accountant members of the National Association of Certified Public Accountants resident in the three states mentioned, to secure the information you require, thereby saving you the expense of travel and of field work, and arrange for them to present this to you in the form of a consolidated report. Financial arrangement for this service can be made by you direct with the accountants.

Yours very truly,

New York, N. Y.
Sept. 25, 1922.

Another Answer:-

Dear Sirs:-

In reply to yours of Sept. 23, would say that we can put you in touch with competent accountants in Canada, members of the National Association of Certified Public Accountants, who are thoroughly familiar with Canadian tax laws and a tax procedure and who, we have every confidence, will be able to render you the service mentioned, in a capable and economic manner. Please let us know your wishes in the matter.

Yours very truly,

Chicago, Ill.
Sept. 19, 1922.

Dear Sir:-

We have accounts receivable outstanding and over due in a number of different states. We are loth to put these accounts into the hands of our attorneys for collection for reasons which will no doubt present themselves to you. However, we are desirous to know the probabilities as to liquidation of these accounts and believe that through your organization a tactful inquiry could be made of the debtor concerns. Will you inform us whether you consider this matter comes with your field of service.

Yours truly,

New York, N. Y.
Sept. 23, 1922.

Answer:-

Dear Sirs:-

If you will send us a list of the cities and towns in which those who are behind in settlement of accounts have their places of business we will be glad to get reliable public accountants, who are members of the National Association and resident in the vicinity, in touch with you in connection with this matter. There is no doubt but what you will be able to secure desired results in this manner without entailing any great expense.

If there is anything further which we may do in this or any other matter at any time please, believe we are at your service.

Yours very truly,