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ferred specifically to lawyers and doctors, but the announcement emphasizes the point made in an editorial entitled, "The Draft," which appeared in the November issue of *THE JOURNAL*, that no individual would be deferred from military training merely by virtue of his calling.

Public accountants may request a deferred status for individual employees

who are engaged in work necessary in the national interest, or who are essential to maintenance of effectiveness of the organization by which they are employed, and cannot be replaced. However, there is no possibility of a blanket ruling deferring all those engaged in any occupation. Each draft board must consider each individual case in the light of all the circumstances.

American Institute of Accountants

TRIAL BOARD

THE COUNCIL of the American Institute of Accountants, sitting as a trial board at Memphis, Tennessee, on Monday, October 14, 1940, heard two complaints filed by the committee on professional ethics.

The first complaint alleged that H. M. Pond had been guilty of an act discreditable to the profession within the meaning of article V, section 4, of the by-laws and had violated rule No. 2 of the rules of professional conduct in that the firm of which the respondent was a member had certified financial statements included in a registration statement filed with the Securities and Exchange Commission (as indicated in S.E.C. release No. 2180, securities act of 1933) containing misstatements of facts or omitting essential facts, as the result of such gross negligence as to be inexcusable.

Specifically, the following misstatements or omissions were alleged: (1) improper inclusion of an operating loss as a charge to earned surplus with inadequate description and failure to disclose said loss in the profit-and-loss statement for the year; (2) improper inclusion of operating expenses as a charge to development expense and failure to disclose said expenses in the profit-and-loss statement for the year; (3) improper inclusion in fixed-asset accounts of legal and auditing fees in

connection with financing, printing, etc.; (4) improper inclusion of various operating expenses in the balance-sheet as deferred charges and failure to disclose such items in the profit-and-loss statement; (5) failure to disclose in the auditor's certificate or report limitations on the scope of audit, which resulted in expression of an opinion on financial statements based on an examination which was inadequate to justify expression of opinion.

The respondent presented an answer to the complaint and replied to questions of members of the trial board.

After discussion, the trial board found the respondent guilty as charged of violation of rule No. 2 of the rules of professional conduct, and resolved that he be subjected to strong admonition and that a statement of the case with the name of the respondent be published in *THE JOURNAL OF ACCOUNTANCY*.

In delivering the admonition to the respondent, the chairman of the trial board made the following statement:

"You have been found guilty of the charges presented against you this morning. The penalty imposed is that of an admonition, which will be published in *THE JOURNAL OF ACCOUNTANCY*, coupled with your name. It is now my duty to convey to you this admonition.

"You have expressed an opinion with respect to financial statements, which

opinion was based on an inadequate examination. The statements did not properly reflect income and were inaccurate and misleading in other respects. Your report omitted required qualifications with reference thereto. This type of work and reporting is below the standard which the public is entitled to expect and receive from members of this Institute.

"It is necessary to convey to you a clear understanding of the seriousness with which the council views the matters which have been before it this morning. The disciplinary action of this council will be effective only if this admonition remains with you as long as you continue to practice public accounting. If it does, then this procedure will be justified."

The second complaint alleged that Arthur C. Smith had been guilty of an act discreditable to the profession within the meaning of article V, section 4, of the by-laws and had violated rule No. 2 of the rules of professional conduct of the Institute in that he had certified financial statements of a broker and dealer in securities (as indicated in S.E.C. release No. 2224, securities act

of 1933, and release No. 2462, securities-exchange act of 1934), containing misstatements of facts or omitting essential facts, as the result of such gross negligence as to be inexcusable.

Specifically, the following misstatements or omissions were alleged: (1) overstatement of net worth by a material amount through understatement of short security position against customers; (2) overstatement of securities owned by the client; (3) omission of certain accounts payable; (4) failure to disclose a bank overdraft; (5) failure to disclose in the auditor's certificate or report the absence of adequate accounts and records and limitations of the scope of the auditor's examination.

The respondent presented an answer to the complaint and replied to questions of members of the trial board.

After discussion, the trial board found the respondent guilty, as charged, of violation of rule No. 2 of the rules of professional conduct, and resolved that he be suspended from membership in the Institute for a period of two years and that a statement of the case, with the name of the respondent, be published in *THE JOURNAL OF ACCOUNTANCY*.