

10-1914

Accounting Conditions and Prospects

Charles G. DuBois

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

DuBois, Charles G. (1914) "Accounting Conditions and Prospects," *Journal of Accountancy*: Vol. 18: Iss. 4, Article 2.

Available at: <https://egrove.olemiss.edu/jofa/vol18/iss4/2>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Accounting Conditions and Prospects*

BY CHARLES G. DUBOIS,

Comptroller of American Telephone and Telegraph Company.

Though the art of keeping accounts is very old, accounting as a science is young—indeed, very young, for its rise to the proportions of a science is intimately connected with the development of our modern intricate industries.

The purpose of this paper is to bring forward for consideration the present-day application of the science in this country and to offer some suggestions as to its future development.

I think we may safely say that this science of accounting has now reached a point where, by its careful use, the financial transactions of any given institution may be classified and summarized and the financial situation of that institution may be clearly revealed.

During the past twenty years the legal recognition by most of the states of accounting as a profession, whose qualified public practitioners should be distinguishable from the unqualified, has not only improved the status of public accountants generally but has also assisted in developing the need for better accounting work generally and has thus, though indirectly, contributed much toward a scientific development of the subject.

But there are two other important contributions to the development of scientific accounting which should be here noted. The first of these comes through the increasing application of scientific methods to business affairs by business men and their demand for what we call "administrative accounting" as an adjunct to their business methods. This demand has been met generally by self-trained accountants, who have gradually fitted themselves to meet these requirements.

* An address before the American Association of Public Accountants, September 15, 1914.

The Journal of Accountancy

The second contribution comes through the increasing governmental regulation of industries, which is developing some accounting principles necessary for that policy and is establishing official rules in that connection.

The fact that these contributions to the science come through distinguishable groups of men suggests that one way to examine the present status of the science in America is through some study of its representatives and exponents; that is, those who are commonly known as accountants.

And, first, what do we mean by the term "accountant"? Whatever dignity or technical requirements we may think ought to attach to the term, we must admit that sensible men generally will apply it to all those who have a general knowledge of the principles of accounting and can apply those principles in connection with actual affairs.

I have made an effort to ascertain how many persons there are in this country who would probably answer to this definition.

The census bureau, in its *Occupation Statistics for 1910*, does not provide a separate classification for accountants, for which, in view of the difficulties at present surrounding the definition, it can hardly be criticised. Accountants are included with book-keepers and cashiers; the total number being 486,700. This is interesting but not of much help in our present inquiry.

But using various sources of information, the following figures may be taken on the whole to represent a reasonable guess:

Corporation accountants—		
Public service corporations.....	3,400	
Private corporations.....	5,000	8,400
Public accountants.....		3,000
Government accountants.....		1,100
Teachers of accounting.....		100
		<hr/>
Total		12,600

Making allowance for probable errors in these figures, and assuming some over-lapping, I think we may safely say that there are 10,000 to 15,000 persons in this country who may fairly be called accountants.

Accounting Conditions and Prospects

Let us next take up these various classes or groups of accountants and consider the work each does or can do to the best advantage.

CORPORATION ACCOUNTANTS.

Take first the class whose number and qualifications are most difficult to ascertain or analyze but to which I have ventured to apply the term "corporation accountants." In numbers they undoubtedly exceed any other class of accountants. In qualifications they vary perhaps more widely than any other.

In a small business the figures prepared by a competent bookkeeper, interpreted by the manager with his personal knowledge of individual transactions, are usually sufficient, and in many cases are doubtless put in excellent accounting form though neither the bookkeeper nor the manager can be classed as an accountant.

But when any corporation reaches the point where detailed classified information is expected from its accounts the accounting work and responsibility is usually separated and a specialist on the subject takes charge of it. In some corporations he is still a subordinate of the treasurer but in the more modern practice he is given an independent status with the title usually of auditor, general auditor or comptroller.

The work of these officials has expanded in scope and importance with such rapidity in the past few years that in the largest corporations they now have several or even many highly trained accounting assistants.

While from the nature of their work these corporation accountants are primarily specialists in accounts, yet I have found many of them who by study and interest in the general subject have become qualified to make audits or establish accounting systems for unrelated industries.

Special administrative accounting is, of course, of supreme importance to the corporation manager, and the skillful corporation accountant must be a master of two subjects, the particular business and the science of accounts. Otherwise, he cannot devise such classification of details as will serve administrative needs and at the same time harmonize with technical balance sheet and income accounting.

The Journal of Accountancy

The responsibility resting on the chief accounting officers of corporations is constantly increasing. Not only are the demands for administrative accounting more and more exacting as business methods become more scientific but the increasing degree to which governmental regulation is carried throws on the accounting officer the burden of responsibility for his corporation in conforming to intricate official rules.

As illustrating this point I quote from the opinion of the Interstate Commerce Commission, number 933, as follows:

The formative period to which we have referred must now be considered as having come to an end so far as all the important principles and requirements of our regulations are concerned, and we shall hereafter expect a more exact observance of the prescribed accounting systems by the carriers and their officials. Accounting officers understand the true functions of accounts and realize their importance in determining the correct economic condition of the transportation properties with which they are affiliated. Their instincts and training are such as naturally to lead them to keep their accounts as they should be kept. They would not have the confidence of their superior officers if this were not the case. But in many instances the accounting officers of carriers have not been left free to follow their natural inclinations in this regard. Irrespective, however, of the influences brought to bear upon an accounting officer to turn him from his true course as an accountant and from his duty, under the law, of keeping the accounts in accordance with the system prescribed by the Commission, it is nevertheless his hand, or the hand of some one immediately under his authority, that makes the wrongful record, and it is the accountant, therefore, to whom the Commission must look in the first instance for the proper carrying out of its rules and regulations. Under our regulations and prescribed form the oath of the accounting officer must be attached to the annual report of the carrier to the Commission, together with that of the executive; and, from the necessities of the case, it is the accounting officer who is immediately responsible and whom the Commission will first hold responsible when it becomes necessary to invoke the penalties of law; but we shall not hesitate to call to account with even greater severity anyone above the accounting officer in authority who may share in the responsibility for any violations of the accounting rules and regulations which have been prescribed for the use of the carriers that are subject to the act.

Corporation accountants have come from various kinds of work. Some were bookkeepers who developed as the business grew. Many were young men of liberal education who started in business as clerks. Some were drawn from the ranks of the public accountants and a few came from other occupations.

Nearly all have had to acquire their technical accounting experience while at the same time learning the purpose and

Accounting Conditions and Prospects

methods of the particular industry by which they were employed. It may be asked why they do not take the training prescribed for the certified public accountant, so as to establish their accounting status. Doubtless the controlling reason is that the requirements of most state laws include a certain period of employment in the offices of public accountants, and this means giving up a permanent position for the sake of a certificate which to employers has little meaning as determining qualifications for specialized accounting work.

While it must not be forgotten that any highly developed corporation has its own peculiar accounting problems, the successful solution of which calls for continued experience in that particular corporation, yet one can hardly escape the conclusion that the various corporations engaged in a given industry have so many accounting problems in common that some systematic exchange of views would be of great value to them all.

Just as the steam railroads of the country have their association of accountants (an example which other public utilities are beginning to follow), so we may expect to see, perhaps in the near future, various trade accounting associations dealing with and expressing authoritative opinions on the accounting problems peculiar to all the principal industries.

PUBLIC ACCOUNTANTS.

The future development of the public accountant's work has naturally received your consideration in many ways, but it is not you alone who are deeply interested in it.

Every accountant in this country is concerned in the status of our certified public accountants, because in the public view the reputation and standing of accountancy as a profession is at present chiefly in their keeping. I think this ought not to be so permanently, but I recognize that it is the existing condition.

The rapid and continued progress you are making in numbers and standing is sufficient indication of the need for your services. The efforts of this association, which I have watched with interest since its beginning—to set higher professional standards and to get recognition by deserving it—merit the attention and sympathy of all business men.

But I doubt if sufficient thought is given to the proper field

for the public accountant's work—in a word, to its specialization. Now I am going to describe frankly what I think the field (or specialty if you like) of the public accountant ought to be, that is, the work he should do better than any one else, and I am going to tell, with equal frankness, what I think he is mistaken in trying to do.

In the first place, it is clear that any business concern, whose business is not large enough or not intricate enough to justify the permanent employment of a qualified accountant, may need the occasional services of a public accountant for systematizing its books and its clerical methods or for any other similar purpose.

Next, any corporation whose securities are to any considerable degree owned by others than the immediate managers, should have its accounts checked and certified by auditors who should be employed by and should report to—not the managers or directors—but to the security holders themselves or a committee of them.

Finally, in business difficulties, in reorganizations involving changes in ownership or management or generally in cases involving the rights of different parties in interest there should be work for the public accountant.

I do not mean to imply that public accountants should limit themselves to these three lines of work nor that they should invariably be employed for these; but these roughly describe the general field in which I think the economic opportunities for public accountants lie. This field, indeed, is so broad that we may expect an increasing degree of specialization in various parts of it.

The work that I think the public accountant is mistaken in trying to cover, has been perhaps suggested in what was said as to corporation accountants.

The development of accounting systems, with whatever auxiliary accounting may be appropriate to the particular business, and the clerical routines necessary in connection therewith are so closely related to the character and organization of any business that the first essential is knowledge of that business. Expertness on the business is needed first and accounting expertness is secondary to that, and for the success of such work permanent responsibility must be joined to expertness.

Accounting Conditions and Prospects

Concerns of sufficient size to do so will permanently employ men who are, or who can become, experts both on the business and on its accounting and can take the responsibility connected therewith. To such concerns the services of public accountants for these purposes are not only inadequate but are superfluous and a waste of money. And yet large corporations are constantly being solicited by public accountants to be allowed to revise their accounting systems, frequently with much glittering argument as to scientific management, efficiency engineering and the like.

I think the public accountant loses the respect of corporation managers for the work that he can do to advantage by soliciting work that from the nature of the case can only be developed and handled successfully by permanent employees responsible for results.

If my view of the division of labor as between corporation accountants and public accountants is economically sound it will doubtless be recognized by public accountants that a part of attaining high professional standards sometimes consists in honestly recommending to their clients a course which means less employment for the public practitioner. Other professions, notably medicine and law, meet exactly this condition and accountancy cannot maintain a high professional status without solving such problems on the same plane.

GOVERNMENT ACCOUNTANTS.

A separate class includes all accountants who are, in various capacities, employed in the public service, federal, state or municipal, and this class naturally comprises four groups.

- 1) Accounting officers of states and cities.
- 2) Federal accounting officers.
- 3) Bank examiners, state and federal.
- 4) Commission accountants.

1) The first group has an organization known as the National Association of Comptrollers and Accounting Officers to which accounting and fiscal officers of cities, counties and states

are eligible. It is a comparatively young association, having been organized in 1907. Its membership was last reported as 125 and growing. Of the need for revising and improving municipal accounting throughout the country we are all well aware, and the increasing interest and intelligence that is being given to municipal affairs generally justify a hope that as a part of this movement the accounting will receive more scientific attention.

2) The federal treasury is said to handle more money than any one other institution on earth. Its accuracy in the care of money is admirable, but to accountants its methods of classification and its forms of statement seem open to criticism and bound, in the course of time, to be revised.

There are believed to be already many competent accountants in the various departments of our national government, and the increasing agitation for more modern accounting methods in the government's affairs may be expected to lead to a greater demand for competent men in this line.

3) Bank examiners, both state and federal, should be and in most cases, I believe, are competent accountants in their special line of work.

4) But the group of government accountants, to whose work I would especially invite attention, comprises those connected with the commissions which regulate railways and other public utilities.

The laws under which our federal and state governments exercise a regulatory control over railways and other public utilities include, as a necessary part of that control, the power to examine all books and papers and the power to prescribe accounting rules.

The federal trade commission bill, now pending, assumes for the government a similar accounting authority over all interstate trade.

Already the accounting methods of banks, insurance companies, steam railroads, telephones and telegraphs, electric railways, express, electric light, gas and water companies are for the most part definitely prescribed by federal and state officials, and, in my judgment, it is only a question of time when the accounting methods for all other business enterprises will be similarly under official direction. This will come about not only

Accounting Conditions and Prospects

through governmental regulation of business practice, but also through the operation of the income tax and other methods of taxation.

This condition and tendency need only be pointed out to show the significance of the accounting work that is being done by these government accountants.

As for their qualifications as accountants it should be noted that most of those employed by the Interstate Commerce Commission must pass rigid civil service examinations, in which I am informed only about 10% of the applicants succeed, and, further, they must have several years' experience in practical accounting work.

The accountants in the corresponding positions under state commissions do not have to pass prescribed examinations in any cases of which I have knowledge, and though they are likely to be political appointments the commissions do in fact generally get as competent men as the salaries authorized by law will command.

Irrespective of the qualifications of these men, their power over the accounting of this country, though exercised subordinatedly through the commissions by which they are employed, is now very great and is increasing. It must be remembered that the rules they prescribe have the force of law and the precedents they establish are coming more and more to influence the accounting in all industries.

TEACHERS OF ACCOUNTING.

Among the hopeful signs of the improving status of accounting as a profession, the progress toward higher education in accounting easily takes first place.

I do firmly believe that the future leaders of our profession will be men who have begun with a broad cultural education and have next taken a thorough post-graduate training in the theory and methods of commerce and finance, specializing meanwhile on accounting.

Accounting education should be thorough on principles, and illustrations of those principles should be chiefly by analysis of actual transactions. At the same time the imagination should

The Journal of Accountancy

be stimulated to search the possibilities of the future, for we may assume that financial and accounting methods will change as much in the next twenty years as they have in the past two decades.

This kind of education should be followed by a choice of one of the four general fields of accounting I have described, and then the man's life work has begun. Specialization in technique is then safe, assuming, of course, that the man does not thereby narrow his horizon; but from this most fatal of all errors his preliminary liberal education and the continuing association with cultivated men of other vocations must be depended on to save him.

For the development of such men up to their working days we must depend more and more on professional teachers, exactly as the legal and other professions are doing. In fact, I think we shall find accounting education will develop somewhat as legal education has. For some few men the study and teaching of principles, together with the other advantages of the scholar's life, will always have more attractions than the practice of a profession.

The responsibility of accountants in practice to keep closely in touch with the developments in accounting education during this, its pioneer and formative period, has been well recognized by your association, but there ought to be a more general realization of its importance. The future of accountancy rests chiefly on the scheme of education for the accountants who will come after us.

Few accountants in practice will have either the leisure or the training to make important contributions to the literature of accounting, though encouragement in this direction is worth the serious consideration of all accounting organizations. In collecting an accounting library during the past few years I have been surprised at the dearth of really good books on the subject. But this condition is already improving and, as the opportunities for higher accounting education increase, we may reasonably expect our professional literature to advance. What I feel that we particularly need is authoritative literature dealing primarily with principles, but thoroughly outlining the processes or reasons by

Accounting Conditions and Prospects

which such principles have become established and codifying such authorities as may be found on the application of the principles.

We would all appreciate such books, but in educational work they are a necessity and the teachers of accounting may be expected to meet the deficiency.

ACCOUNTING SPECIALIZATION.

This rough grouping of present accounting work shows that specialization in accounts has made considerable progress, and that it has been a natural evolution without special direction or stimulus. That this tendency will continue much further is suggested by the conditions now existing in more highly developed professions, as medicine, law and engineering.

In small towns and rural communities generally a doctor of medicine must attend to any kind of a case. Nervous prostration, scarlet fever and surgical operations are all part of the day's work.

The country lawyer will draw up a will or defend a murder case with equal facility.

The country engineer, often not recognized as such even by himself, will successfully survey a field, build a bridge, or lay out a water system.

But, as we get to larger and larger centers of population, there is more work and the problems are more complicated, so that this condition gives way to an increasing degree of specialization.

Now accounting in any scientific sense is chiefly concentrated in large cities since the transactions, though they may take place in the country—as for instance, the construction of a railroad—are entered on books at some central office.

It seems apparent that accounting, by reason of this centralization, lends itself readily to an increasing degree of specialization. From the technical standpoint also we may see this same tendency.

The classification of transactions naturally becomes more complicated as the transactions increase in variety. As they increase in volume the knowledge of them necessary to a business administrator does and must come through compilations of figures about them. If a man buys and sells 100 head of cattle in a year

he is content to know from his books what he paid for the whole number and for what he sold them. But if he buys and sells 100,000 head of cattle he will almost inevitably classify them and will presumably seek to learn his profit on the various classes. Illustrations of this point will occur to any one. The general rule may be deduced that increase in volume tends to differentiation of classes and, hence, to increasing complexity of accounts.

It seems to me that it is the part of all professional accountants to clearly recognize this tendency toward specialization and to foster its development along sound economic lines.

In large corporations specialization may be expected to proceed from skill in the industry to skill in parts of the industry (such as departments) or to accounting subjects as applied to the whole industry, as property accounts, revenue accounting, cost accounting and the like. In public accounting work perhaps it may be found advantageous to specialize along the same lines as industries or by kinds of accounting work or according to the purposes for which an examination is to be made. Possibly some degree of specialization in public accounting work is already followed, but to the observer it seems as if public accountants generally are seeking all classes of accounting work without much regard to the specialized training needed to handle them.

We need not here concern ourselves with the arguments for or against specialization. It must be recognized as necessary in any profession under the present-day pressure for increased efficiency amid more and more complicated conditions. Of course, this specialization has its dangers and disadvantages. These we must grapple with just as the other and older professions do.

THE STATUS OF ACCOUNTANTS.

But the criticisms of present accounting work are not directed at its over-specialization—rather the reverse, I think, if they be carefully analyzed.

The most common criticism is that accountants do not sufficiently grasp the operating viewpoint of the business they are dealing with and that the effect of this is to make their studies and reports lacking in practical helpfulness. Again, this ignorance

Accounting Conditions and Prospects

leads the accountant who attempts to devise methods into schemes that are not adapted to the organization or purpose of the concern. This general line of criticism is usually directed especially at the public accountants, but neither corporation nor government accountants escape it.

Another criticism is that in his passion for precision in his statements, the accountant often obscures the main issues by unimportant detail. All have seen the type of report that supplies a mass of tables, but does not clearly indicate whether the concern has or has not actually earned the dividends paid. From mischance as well as culpable negligence no profession can entirely free itself, but accounting ought to stand highest of all in public estimation in this respect since it deals more largely than others with matters of definite record.

It should chasten us all to read the following excerpt from the *New York Times Annalist* of July 27:

One of the most difficult things decently to explain in finance is that on one day a corporation should appear to be solvent, from the figures certified by a reputable firm of expert accountants, and hopelessly insolvent the next, on a new set of figures prepared, perhaps, by the same experts. To this the accountant will reply that he certifies not to the solvency of a corporation, but to the arithmetical correctness of its figures—that they add and divide and subtract, and all come out even. But if that is all an accountant's certification is worth, why, how much is it worth to the investor, who, as a rule, is innocent of the technical refinements of accounting and regards a profit and loss surplus as a tangible asset because it is counted that way?

On vital issues that affect accounting, such as the valuation of properties, the method by which depreciation should be calculated, the distribution of overhead expenses, the development of unit costs, the significance of operating statistics and so on, it must, I think, be admitted that most of the discussion and progressive work to-day is among engineers, economists and operating men, rather than accountants.

Take, for instance, the *American Economic Review* for June, 1914, which classifies significant articles appearing in periodicals. Under the heading "accounting" thirty-four articles are referred to, of which eight appeared in accounting journals and thirteen in engineering periodicals, the remainder being chiefly in trade journals. Apparently, the engineers are taking more interest in

accounting than the accountants! Of five hundred and one other articles on economic and business subjects two are ascribed to accounting periodicals. Of course, there is nothing conclusive in this illustration, yet I think we must admit that, while we are holding back, the engineers and the economists are exchanging ideas, forming opinions, and developing a scientific procedure with which we should be intimately concerned.

Now, the status of accountants and the value of their work are directly limited by these shortcomings. The business world realizes its need of better accounting work. It is developing more scientific methods of production and distribution. It has been struggling for some years to adjust itself to domestic political exigencies and during the past few weeks to a complete upheaval in international trade relations. In these extraordinary situations the accountant should be the premier business economist on whom the business world could safely lean, but—to put it bluntly—he has not taken advantage of his opportunity to qualify himself for the great things.

But it is not only in the great crises that his opportunity lies.

Observe the tendency toward higher ethical standards in business affairs which history shows us has been a part of the growth of civilization, but which has received in our time an unusual impetus. We all hope that the present movement for higher business standards will result in a firmer and safer foundation for our entire business structure. Its process, however, is full of confusion, wherein there is so much calling of hard names, so much virtuous denunciation of other people's acts and motives, and so much hasty legislation that the plain citizen may well wonder whether real progress is being made or only a temporary upsetting of business conditions, which will, after much hardship, pass away, leaving our standards of business morality about what they were before.

In this situation an undue emphasis has been laid on the spectacular, partly because it attracts popular attention and partly because it does not require a thorough mastery of facts. Slipshod investigation and superficial thinking are concealed behind a mass of passionate or accusatory language embellished with, but not supported by, statistics. I conceive it to be the duty of all sensible men and especially of accountants to deal patiently and

Accounting Conditions and Prospects

thoroughly with facts of each case, seeing to it that they are stated clearly, stripped of irrelevant details, and to judge as to the propriety of the transactions or the motives of those responsible for them in a spirit of tolerance for past standards, but with constructive advice toward a better future.

THE UNITY OF THE PROFESSION.

May we not then fairly assume that the time is ripe for a new and a broader conception of the part that accounting and accountants should fill in the business world?

We shall not gain that conception nor fill that part so long as the various classes of accountants I have indicated work by themselves, largely unassociated and unrelated and with limited individual acquaintance. No one class, no matter how competent it may be, can cover the field. In no one class to-day can the development of accounting as a science be centered in this country. Each class has its part and the individuals of each class must specialize to an increasing degree in order to do the best work. This is reasonable and is the experience of other professions.

But I plead for the unity of the accountancy profession as a whole. If, as I believe, there are more than ten thousand accountants in this country, there ought to be a way provided by which they can stand together in a forward movement to develop the science of accounting and to improve its application.

Other professions, no older and no more important than ours, have successful organizations for similar purposes. Thus, for instance, the American Institute of Electrical Engineers, with over seven thousand six hundred members, represents every specialized branch of that profession. Other cases will occur to you all.

When the need for unity and solidarity of the accounting profession gains general acceptance the measures by which it can be attained will be speedily found. The one indispensable condition is a recognition of the need for unity, rising above all selfish or class considerations, to the one end that the science of accounting may be made more useful to the business world.