Correspondence

O. R. Ewing & Company

R. J. Bennett

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Correspondence

Importance of Comments on Reports

Editor, The Journal of Accountancy:

Sir: In your March issue, we notice that Mr. R. J. Bennett answers question 7 of the Pennsylvania C. P. A. examinations of November, 1912, in detail. On page 220 of The Journal he has the following words: "I have carefully examined the books and accounts for the past five years and have set forth the entire data in the accompanying statement."

We would like to ask the gentleman just what he means by the above sentence. In doing this we do not mean to place ourselves in a position where it would appear that we desired to "try to be smart," for such is not the case.

In our territory we find one of the most important features of accounting work is the letter, or text, that is written accompanying the report. It is one that has given our office a great deal of work and hard study, and we are trying to improve on this particular subject in every way that we can, and our special object in writing this letter is to find out from Mr. Bennett what he means by the sentence that we have brought up. We find that it is highly advantageous to state plainly whether or not we audited the books, the exact time that we covered in all the departments of the books, and how we verified the inventories, the accounts receivable and bills receivable and the accounts payable.

We audited a large wholesale grocery house only a few months ago and the proprietor, when we came to checking up the merchandise, was out of town, and his secretary and treasurer advised our accountants that as the accountants who had made the examination for some three or four years previous to our examination had not done this, he would rather they would not go into it. We did not like this, but our men were working under his direction and, of course, his wishes had to be respected. However, when we turned in our report, we stated in the text of it that we did not get invoices to support the giving of the cheques, as this was requested to be passed up by the secretary and treasurer. As soon as the proprietor found this out, we were called down to his office and he very plainly informed us that he had been informed that the merchandise account had been thoroughly checked each year and this was a big surprise to him, and he positively stated that next year he wanted us to check the account very carefully. even though it took twenty days to do it. The account that we refer to was handled on the following basis: The firm carried no accounts payable ledger for the reason that everything was paid for by cash and discount taken whenever it was possible. Two columns on the cash book represented the merchandise account, one column was used for foreign purposes and one for local purposes, cheques were drawn from time to time, paying off different firms, and then entered on the cash book, giving the name of the
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firm and the amount placed in one of the merchandise columns. Very frequently they would get some New York exchange and sometimes they would lump ten, fifteen or twenty cheques in one amount and enter it on the cash book, say to merchandise. Of course, the cheque stub, or register, would show the amount in detail.

Suppose we had reported to the wholesale grocery that we refer to that we had audited, or examined, their accounts without telling them plainly what we had not done, and a big defalcation had sprung up in the merchandise account, where should we be? We know of any number of accounting firms, and some of them the very best firms of New York, Chicago and other places, that have had their representatives in this territory, who have been bitterly censured because of certain omissions which could have been easily obviated had they stated what they did and did not do. In other words, is it not highly important for the protection of the profession and one's office to be careful to state in detail what is done, giving special attention to the dates covered, say in checking back the representative accounts, verifying accounts receivable, going into the inventory and accounts payable, and other phases that might need particular attention?

In conclusion, from Mr. Bennett's statement, would the average layman construe from the text of his report that by this expression, "I have carefully examined the books and accounts for the past five years and have set forth the entire data in the accompanying statement," that he had thoroughly audited the books, verified the accounts receivable and payable, gone over the inventories, and to what extent, and if proven by certain calculations other than the mere checking of them or going over them? If you will give us your views on this matter and have Mr. Bennett answer us, personally, or through The Journal, we shall very much appreciate it.

Yours very truly,
O. R. Ewing & Company.

Memphis, March 22, 1913.

Mr. Bennett's Reply

Editor, The Journal of Accountancy:

Sir: The letter from O. R. Ewing & Co. to The Journal of Accountancy has been forwarded to me for reply. It is customary for the accountant to write a report or letter to accompany the statements or exhibits which he submits to his client, but the length of the report must, of course, depend upon the accountant's judgment as to how much information he should place therein. Sometimes this report or letter covers only a few lines, while at other times it is more extended and may cover even several pages. Of course the matter contained should be set forth clearly and unmistakably, with any suggestions or recommendations deemed necessary, and perhaps explanatory paragraphs bearing on items which appear in the accompanying exhibits. It seems in-
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advisable, however, to encumber the report with references to minor matters which could be brought orally to the attention of the bookkeeper or office manager. It seems unfair also for the accountant to use his official position to criticize employees unless the occasion really demands it. In many cases unimportant errors can be corrected, or even a change in plans brought about with more harmonious results, through personal advice rather than through criticism of work by way of the report. A kind word costs nothing, and a few words of advice may work wonders in the life of an employee.

Sometimes it is advisable to present a supplementary report. This may be directed to the president, the treasurer or the office manager, setting forth ways and means for improving the accounting and office methods. It will be seen that this does not form a part of the report, but is simply a separate letter of suggestions and instructions.

I am grateful for the suggestions regarding the sentence in my answer to question 7 in the March issue of The Journal. It evidently could be materially improved by a change in wording and by stating more clearly the scope of the examination. Instead of saying, "I have set forth the entire data," I might have stated that the information contained therein had been condensed from the book accounts as a result of my investigations. Other qualifying words could also have been included, such as would obviously come to one's mind in an actual case. Of course the exhibit itself indicates the period under review, while the letter states that I have made a careful examination of the books covering the five years ended December 31, 1911. The letter or report is very important, as suggested in my opening remarks on question 7, yet my answer was prepared more to illustrate the manner of preparing reports and statements than to set up model phraseology. I heartily agree, however, in the emphasis which Ewing & Co. place upon the report, because if it is made at all it should be made carefully; but if it is made lengthy for the purpose of saying something or for offering advice, there is always the possibility of saying more than is necessary and of being misunder-
stood.

Faithfully yours,

R. J. BENNETT.

Philadelphia, April 1, 1913.

Louisiana State Board of Accountancy

The Governor of Louisiana has appointed Guy V. W. Lyman of New Orleans to fill the vacancy in the state board of accountancy.

Mr. Lyman is secretary of the Society of Louisiana Certified Public Accountants.

The new board organized by the selection of C. E. Wermuth as president, Moses Elkins as secretary, and G. V. W. Lyman as treasurer. The examination to be held in New Orleans on May 23 and 24 will be the first since 1911.
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Oregon State Board of Accountancy

The Governor of Oregon has announced the personnel of the Board of Accountancy created under act passed this year. The following are the members of the new board:

John Y. Richardson, Portland.
Arthur Berridge, Portland.
A. McE. Ball, Portland.
W. H. Wann, Medford.
Charles L. Parrish, Klamath Falls.

The Oregon law becomes effective June 4th.

Tennessee State Board of Accountancy

The Governor of Tennessee has appointed the first board of accountancy under the new law as follows:

George M. Clark, Chattanooga, three-year term.
F. M. Pike, Memphis, three-year term.
Walter S. Black, Knoxville, three-year term.
Ira P. Jones, Nashville, two-year term.
O. R. Ewing, Memphis, one-year term.

Announcements

Wright, Schooley and Morse, public accountants, announce that their office is now in the Woolworth Building, New York.

It is announced that M. H. Bennett, William Mackendrick and Frederick F. Hahn, certified public accountants, have consolidated their practices under the firm name of Bennett, Mackendrick and Hahn, with offices in the Hellman Building, Los Angeles, California.

D. B. Lewis & Company, certified public accountants, Boston, Massachusetts, announce that they have transferred their office from 708 to 542 Exchange Building, 53 State Street.

It is announced that T. B. Cornell has withdrawn from the firm of Smith, Brodie & Cornell, certified public accountants of Kansas City. The business will be continued by F. A. Smith and A. F. Brodie under the firm name of Smith & Brodie.

The Pace Institute of Accountancy announces that Harold Dudley Greeley, L.L.M., C.P.A., has been elected director of the division of accounting instruction in the metropolitan schools. Mr. Berton L. Maxfield, Ph.B., continues as director of the division of law instruction. Approximately 2500 students are enrolled for the professional three-year courses in the Pace Institute of Accountancy and the nineteen affiliated resident schools conducted in conjunction with the Young Men's Christian Association in New York and other prominent cities.