

FIFTIETH  
ANNIVERSARY

1898 - 1948

*Privately Printed*

LYBRAND, ROSS BROS. & MONTGOMERY



*This Issue of the*

*L. R. B. & M. JOURNAL*

*is Dedicated to the Founders of the Firm of*

*LYBRAND, ROSS BROS. & MONTGOMERY*

*by their Partners and Fellow Workers*

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## Foreword

Every phase of the economic cycle has been encountered by the firm in the fifty years of its existence. There have been three wars, each accompanied by the artificial stimulus of war production, periods of normal prosperity, boom times, and at least three depressions. Throughout these years there has been a steady growth in the accountancy profession with ever increasing responsibility.

The requirements of credit grantors, investors and stock exchanges for the review of financial statements and the expression of opinion thereon by independent certified public accountants have vastly increased; we have seen the enactment of tax legislation undreamed of fifty years ago with its resulting impact upon the business world and the work of the accountant; federal and state securities laws have come into being; and a host of other developments have occurred, each tending to increase the responsibility carried by the profession.

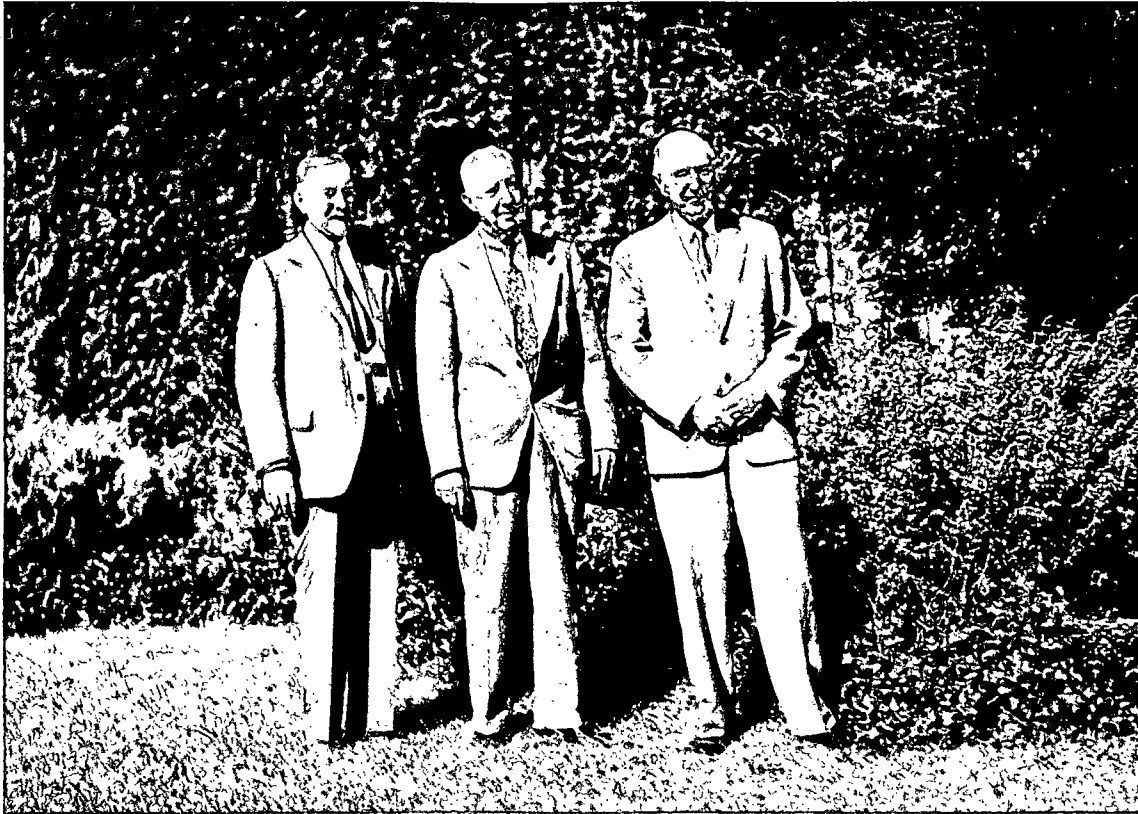
Perfection has not been achieved by the accountant, nor will it ever be; the profession's continued growth, however, is dependent upon its continuous effort to achieve that goal. An outlook analogous to that held by the accounting profession was expressed by the late eminent jurist, Oliver Wendell Holmes, Jr., who, speaking of the legal profession, said:

The truth is, that the law is always approaching, and never reaching, consistency. It is forever adopting new principles from life at one end, and it always retains old ones from history at the other, which have not yet been absorbed or sloughed off. It will become entirely consistent only when it ceases to grow.

The firm has had its share in the growth of the profession. Our partners and staff members have participated in the promotion of accountancy education and by their writings have contributed to the literature of the profession. They have taken, and will continue to take, an active part in the functioning of state and national societies.







T. EDWARD ROSS

ROBERT H. MONTGOMERY

WILLIAM M. LYBRAND

*Asheville, North Carolina — September 1948*



## Fifty Years

The firm of Lybrand, Ross Bros. & Montgomery was founded in Philadelphia on January 1, 1898. The four original members, who had been friends and associates for almost ten years, were William M. Lybrand, T. Edward Ross, Adam A. Ross and Robert H. Montgomery. All had been associated with the late John Heins, a pioneer public accountant in Philadelphia, and one of the ablest men in the accounting profession in the nation.

Mr. Adam Ross died in 1929. It is most gratifying that the other founders have been able to carry on their association in the firm for five decades.

At its inception the organization comprised the four partners, one staff member and a clerical assistant. The staff member, Joseph M. Pugh, became a partner in 1904. Duties of secretary, typist and bookkeeper were performed by the sister of the Ross brothers, Miss Lillian A. Ross, who retired forty-six years later.

No. 1.	Philadelphia	Jan 31 1898
The Girard Life Insurance, Annuity & Trust Company.		
of Philadelphia.		
Pay to the order of Beas		
Eighteen	$\frac{44}{100}$	Dollars
\$ 8.44		Lybrand, Ross Bros & Montgomery

No. 2	Philadelphia	31st January 1898
The Girard Life Insurance, Annuity & Trust Company.		
of Philadelphia.		
Pay to the order of Franklin Printing Co.		
Eighteen	$\frac{25}{100}$	Dollars
\$ 18.25		Lybrand, Ross Bros & Montgomery

Two of the firm's earliest checks, which were drawn one month after its founding, are shown above.

The first check was to reimburse Mr. T. Edward Ross for expenses incurred by him and three assistants in traveling to and from Jeddo, Pennsylvania, for the account of G. B. Markle & Company. The second check was for the purchase of stationery.

Two small rooms in the Stephen Girard Building comprised the first office of the firm. Indicative of the furniture and equipment in use at that time is the inventory shown on page 9 which was taken by Mr. Adam A. Ross on April 1, 1898. The oak roll-top desk which was valued at \$35 served the four partners, and the six-foot standing desk was for the use of the staff. On page 11 is pictured an inventory of the books which comprised the firm's library, which inventory was also taken by Mr. Adam A. Ross on April 1, 1898. It is interesting to note that the only two publications on accounting were "The Accountant" for the years 1893 to 1896 and Volume I of "The American Accountants Manual." Contrast this modest collection with the many thousands of books in the libraries of our offices throughout the nation today!

On June 1, 1902, the firm sent to its clients in Philadelphia an announcement of the forthcoming opening of an office in New York City. A copy of the announcement appears below:

LYBRAND, ROSS BROS. & MONTGOMERY  
CERTIFIED PUBLIC ACCOUNTANTS

516-518 STEPHEN GIRARD BUILDING

PHILADELPHIA 1ST JUNE 1902

*Dear Sir:*

*We beg to announce that we are arranging to open an office in New York City, where a member of the firm with a force of assistants will be in attendance at all times.*

*We desire particularly to be of service to Philadelphians and others having interests in New York.*

*We shall be glad to correspond with you from this office if you have any work in contemplation.*

*Very truly yours,*

*Lybrand, Ross Bros. & Montgomery.*

Office Furniture

101 April, 1898

2	Leather screens	w	16
1	Oak clothes-pole	w	2 75
5	Oak cane seat chairs	w	11 25
1	" revolving desk chair	w	8
1	" roll top desk	w	35
1	F. W. <sup>second</sup> dictionary and stand	w	11 85
2	<del>Things</del> <del>Comptona</del>	w	68 -
1	Oak revolving bookcase	w	11 20
1	Remington typewriter & copy-holder	w	10 2
1	Oak typewriter book cabinet	w	23 50
1	" " chair	w	5 25
1	" 6-ft. standing desk	w	14 50
1	" table-desk	w	16
1	Revolving stool	w	2 25
2	Wash-basins	w	1 90
4	<del>Journal</del> <del>books</del>		
1	Picture & frame "Prophet"	w	8
1	" " "Geo Washington"	w	7
3	Photographs in no frame "Valley Forge" etc	w	2
1	Etching "frame" "On the Delaware"	w	6
1	Hat rack	w	2 55
1	Umbrella stand	w	2
1	Clock (wall)	w	6
1	Blacking-stand	w	2 75
1	Letter-scales (chip Mah)	w	3 -
1	Check-punch	w	5
1	Small desk-clock, leather cover	15.0	
1	Cuspidor	.50	
2	Door-mats		3 50

350  
 274 25  
 45  
 374 10  
 17  
 \$ 388 70

May

Summed

The following September this office, consisting of one room, was opened at 25 Broad Street. Colonel Montgomery was both the "member of the firm" and the "force of assistants." In the following year, Miss Anna M. Storey was engaged as secretary, a post which she held for twenty-three years. She was succeeded by her sister, Miss Reba Storey, who retired in 1945 after serving the firm for twenty-eight years.

By 1908 the members of the organization were traveling with increasing frequency to Pittsburgh; accordingly, the firm opened an office there under the management of Walter A. Staub.

The next office to be established was in Chicago in 1909. Walter Beans of the Philadelphia staff was the first manager, and he was succeeded two years later by Mr. Staub, who was transferred from Pittsburgh as resident partner.

In 1915 the New England practice of the firm necessitated opening an office in Boston. Its first manager, later a partner, was Carl T. Keller, who was an important factor in its foundation and has contributed much to its growth and success. In 1916 Homer N. Sweet became a member of the organization and less than three years later was admitted to partnership.

Developments which took place in governmental affairs, especially World War I agencies and the increasing number of tax cases, made it essential in 1919 to establish a Washington office. Soon thereafter the office was placed in charge of the present manager, J. Marvin Haynes.

Toward the end of World War I, Detroit became increasingly important as a commercial and industrial center; consequently, an office was established there in 1920, with Richard Fitz-Gerald as manager, and later as resident partner. In the same year, the expansion of the firm's practice found a further expression in the opening of our first Pacific Coast office in Seattle.

Two offices in the State of Ohio were opened in 1923. Prior Sinclair became manager of the Cleveland office and A. Charles Guy manager of the new office in Cincinnati.

For many years Klink, Bean & Company had acted as agents for the firm in California. This arrangement eventually led to the merger of its practice with ours in 1924. At that time, George R. Keast was transferred from Pittsburgh as resident partner and assumed active management of the San Francisco and Los Angeles offices.

Further expansion of the firm's practice in the East made it desirable to open an office in Baltimore in 1924. Frank E. Hare

Books

4	Kent's Commentaries	Vols. 1, 2, 3 & 4	14-	
4	Blackstone's	do " 1, 2, 3 & 4	10-	
1	Panama State Reports	141 Crumrine	1.25	
1	do	156 Monaghan	1.25	
1	do	159 do	1.25	
1	do	168 Kross	1	
1	Anderson Dictionary of Law		6.50	
1	Laws of Business, Parsons		1-	1.50
1	Abridgement of Blackst. Com.	Sprague	2.50	
1	Formation & Regulation of Corporations in Panama	1874-1889		5
1	Limited Partnership Law Panama	Tracy		2
	The Accountant	1893	6-	
	do	1894	6-	
	do	1895	6-	
	do	1896	6-	
1	The Amer. Accountants Manual	Vol. 1		3.
1	Bankers Interest tables			1.50
1	Gopelle City Directory	1898	5	
1	" " "	1897	1.50	
1	Bankers Directory, Rand, Mc N. & Co.		5	
2	The Amer. Commonwealth	Byce, Vols 1 & 2	2.50	
1	Josephus, Complete works		1.50	
1	Composition & Rhetoric	Williams	.75	
1	Elements of Rhetoric & Comp.	Hill	.50	
1	Philosophy of Wealth	Clare	1-	
1	Money, Trade & Industry	Walker	1-	
1	The Orthopedist	Ayres	.50	
1	Lessons in Logic	Jevons	1-	
1	Money and the Mechanism of Exchange	Jevons	1-	
1	Oral Method with French	Kochel	.75	
1	Elementary Geometry	Chauvenet	.75	
4	Petty Cash books (blank)		5-	
4	Cash balance "	( do- ) in safe	15	
1	Corp. Laws N. J.			1-

14.00

105.50

served as manager for one year and was succeeded by Walter L. Schaffer. The office is now under the direction of Edmund A. Staub, as resident partner.

Jackson, Pixley & Co., Chartered Accountants, had been our representatives in Europe for a number of years prior to 1924. By establishing a Berlin office in that year, the firm for the first time had direct contact with its clients abroad. Foreign activities were further extended by the opening of offices in Paris in 1926 and in London in 1929 in charge of Arnold T. Davies and Victor L. Norris. The Berlin office was closed in 1938; the Paris and London offices, however, survived the vicissitudes of war. Mr. Norris remains as resident partner of the London office, Mr. Davies having retired. The Paris office is now under the direction of Leonard C. David, as partner.

The year 1929 saw the opening of the Rockford, Ill. office under the management of John W. Conrad. In the following year, offices in St. Louis and Atlanta were opened. Robert S. Warner is resident partner in St. Louis and James P. Allen manager of the Atlanta office.

Our Texas representatives since 1914 had been the accounting firm of Peter & Moss, located in Dallas. Their practice was merged with ours in 1930. Albert G. Moss and J. F. Stuart Arthur are presently resident partners. Our Southwest activities were expanded by the opening of an office in Houston in 1931, under the supervision of our Dallas partners. William P. Crouch is now in direct charge. In the same year, Louisville became our newest office under the management of C. Palmer Parker, who was later succeeded by Paul F. Halloran, now a partner.

As the firm enters the second half-century of its practice, the founders are deeply gratified that their ideals have been upheld, that the policies which they established have been strengthened and that their hopes and dreams are being fulfilled. These ideals and policies are the keystone upon which the continued development and progress of the firm depend.

## In Memoriam

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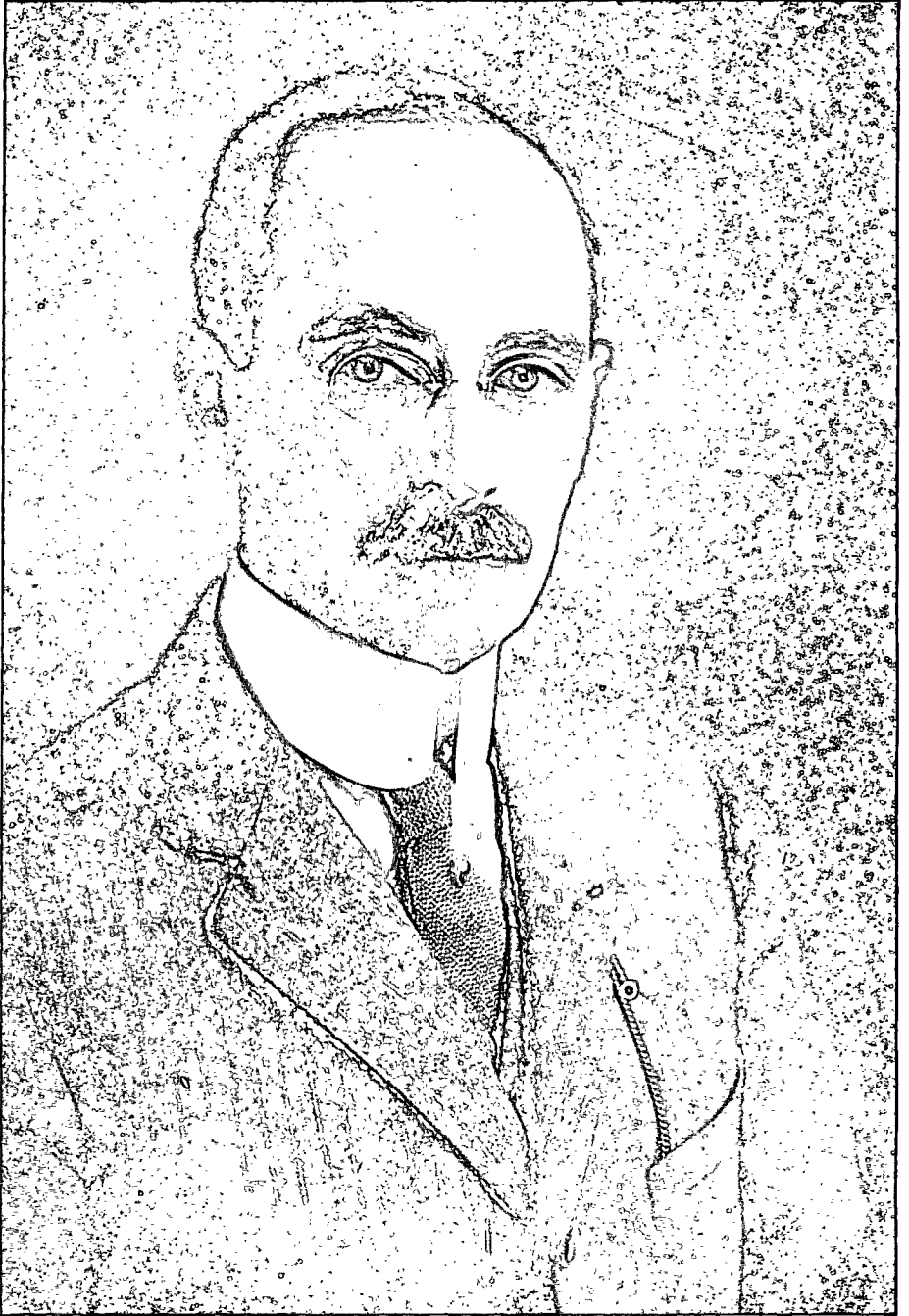
### ADAM AVERELL ROSS

The death of Mr. Ross on June 15, 1929, marked the first break in that long and happy companionship of the four who for forty years had been associated as coworkers, partners and friends.

Eulogies are superfluous when a life speaks for itself. Particularly is this so when they savor of the kind of adulation that Mr. Ross himself would have disliked. It is fitting and proper, however, to record some of his outstanding characteristics so that posterity may draw from the example of his life, lessons that will aid it to wiser and more helpful living.

Mr. Ross was active in matters affecting the growth and progress of the profession of accountancy. He was one of the fifteen charter members of the Pennsylvania Association of Public Accountants organized in 1897. He was prominent in the promotion of legislation for the passage in 1899 of the Pennsylvania C. P. A. Act. From 1902 to 1904, when the Pennsylvania Association sponsored evening classes for the teaching of accountancy, he became actively interested in these classes which met in the Philadelphia office of the firm. When the University of Pennsylvania took over this work in the fall of 1904, Mr. Ross was one of the guarantors of a fund to insure the success of the undertaking. He held many important office and committee appointments in both national and state societies. The *Journal of Accountancy*, in an editorial shortly after his death, said of him:

His going creates a vacancy in the profession of accountancy which will not be wholly filled. Other men will come into the field well equipped and ready to advance the interests of accountancy. They will have abundant opportunity for the exercise of their talents and good will. But when one of those who labored when the profession was young passes from the scene there is always a feeling that something has gone for which there can never be full compensation. The men who have grown up with accountancy in America know the name Adam Ross even if some of them in remote parts of the country had not met him. In the early days he was one of the few who built up a profession in Pennsylvania, but his view of things was never obscured by state lines. He always believed in the national breadth of accountancy and was active in the administrative and other affairs of the old American Association of Public Accountants and its successor, the present American Institute of Accountants. Until his



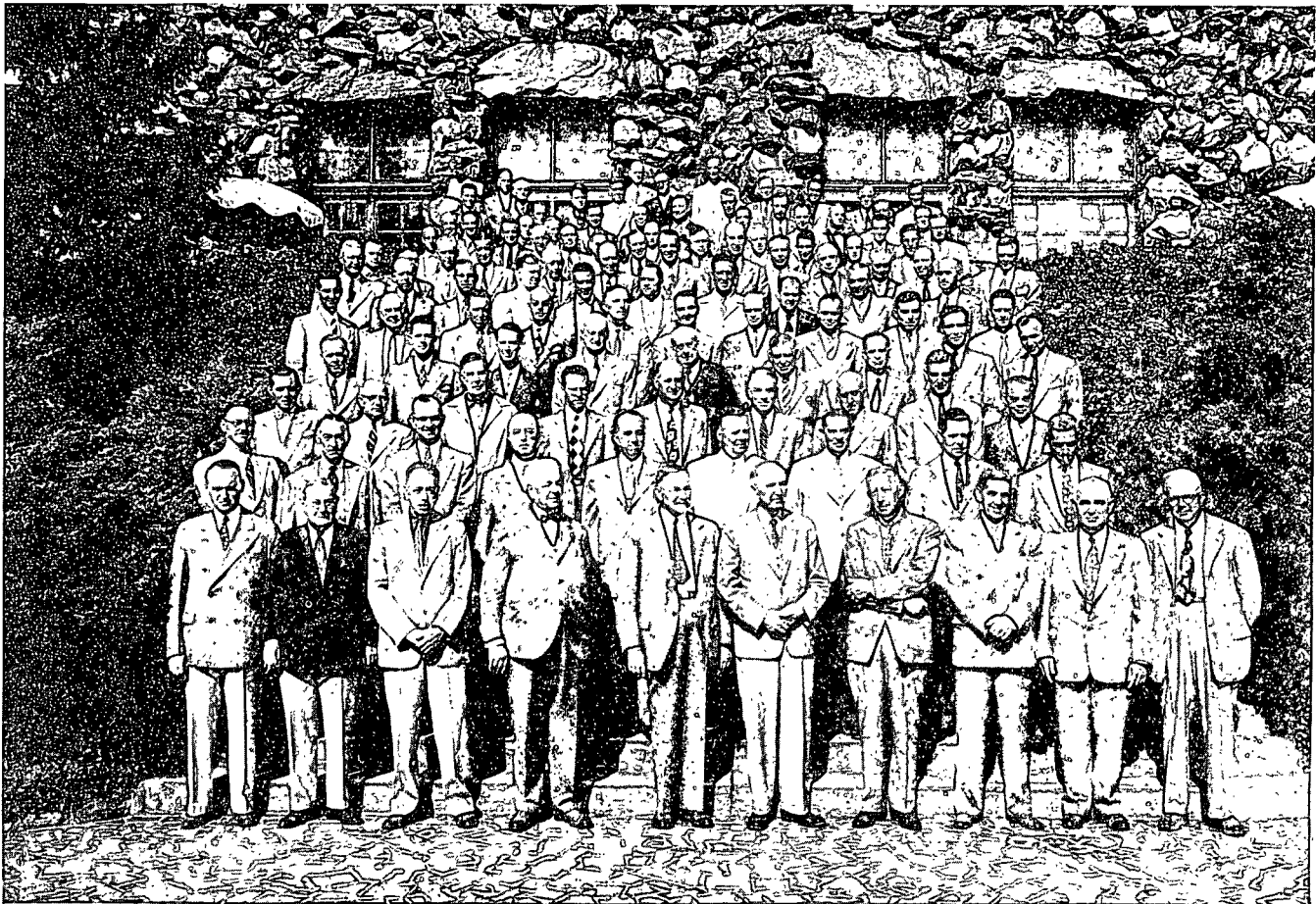
Adam Averell Ross



final illness made it impossible for him to participate actively in the work of the Institute he took an important part in the functions of the organization. He served for several years as treasurer and was a member of council and of many committees. He was an accountant of the kind which has made the profession estimable. He was a kindly, lovable friend and a delightful companion. Above all he was a Christian gentleman.

Mr. Ross was noted particularly for his human qualities. He had a great capacity for friendship—the kind that endures. He was fond of outdoor life, especially boating and fishing. His principal hobby was the collection of Americana. A deeply spiritual man, he was for many years a communicant and Vestryman of St. Mary's Episcopal Church of Ardmore, Pennsylvania.

His death nearly twenty years ago "left a name behind him whose praise can be repeated," for he was a fellow worker of great ability, a man of fine mind and cultural interests and a good friend and comrade.



Firm Meeting—Asheville, N. C.—September, 1948

## Firm Meetings

For many years meetings of partners and managers have been held, primarily to discuss administrative and other problems and coincidentally to enjoy recreational activities. In 1927, for the first time, these meetings were expanded to include twenty-five staff members, thirteen of whom subsequently have been admitted to partnership.

The practice of inviting staff members has continued, meetings having been held at such widely separated places as Osterville, Mass., Absecon, N. J., Chicago, Detroit and Asheville, N. C. During World War II these meetings were of necessity restricted, but 1947 witnessed the resumption of meetings of a pre-war character. In that year the meeting was held in Asheville, at which more than 100 partners and staff members attended.

In 1948, Asheville was again selected as the meeting place, and forty-two partners and seventy-two staff members were present. The group picture taken on September 17, 1948, appears on the preceding page.

Some of the more important purposes of these meetings are: to discuss matters pertaining to accounting principles and procedures; to attain to the greatest degree possible a high quality of practice throughout our organization; and to discuss problems in the light of local conditions at our various offices, all of which tend to improve the quality of our services to clients. Another benefit derived from these meetings is the opportunity to meet and know our fellow workers throughout this country and abroad and to renew old friendships.

As an incentive to those who liked to play golf, Mr. Lybrand, in 1927, presented a cup to be awarded to the golfer having the lowest net score for eighteen holes. This trophy, known as the Lybrand Cup, is pictured on the page following.



The Lybrand Cup

# Opportunities Then and Now

(BY AN OLD STAFF MEMBER)

Forty years ago I had my first contact with the firm when I was engaged to work for one of its clients. In the following year, I became a member of the Philadelphia staff and I can testify that accountants practicing at that time were highly skilled even by present-day standards. Those pioneers built a profession that has won the deepest respect for its constructive response to the rapidly expanding growth of American industry and finance. The advantages which have accrued to the present generation of accountants are the result of the labors of those pioneers.

If my memory serves me correctly, there were only two college men on the Philadelphia staff in 1909, and perhaps one C. P. A. The staff was recruited from the ranks of men who had been employed for a number of years by financial or manufacturing organizations. Under the firm hands of the partners, these men were guided through the intricacies of accounting and auditing. They learned by doing, and I can attest that no accountant ever had better teachers.

I have a lot of notes made at odd moments which indicate the difficulties with which the beginners had to contend. There is very little to be gained by touching on the long hours, the unpleasantness of travel, the relatively unwholesome hotel accommodations in both small and large towns, the need for building a clientele, the lack of those educational advantages now available to all, and the need to acquaint the American business man with the worth of professional accountancy.

In the Philadelphia office in 1909 the partners frequently worked after the men left a job in the wee hours and were there when the men reported the following morning. We never made a date because the chances were good that engagements might pop up at the last moment which at the time may have seemed onerous but which now afford only happy memories. The natural business year was but an iridescent dream, and therefore the staff worked all hours during the busy season and was unassigned for long spells the remainder of the year. The idea of temporary help was frowned upon, for the firm did not care to have its clients' affairs known to any but permanent members of the organization. It may be worth mentioning here that it was not unusual to engage men on

a day basis until they made good. That is the condition upon which I was engaged.

Our work was, to a large extent, checking postings, comparing canceled checks with the cash book, comparing vouchers, and verifying footings. Men would spend as much as four weeks continuously on this type of work. Woe betide the man who failed to find that an item had been entered in the wrong column in the voucher register! There is a story told that one man (who later became a partner) had been comparing vouchers for several weeks and wearily lifted his tired eyes to rest them when he heard the partner in charge say, "Nothing to do . . .?" Who said Philadelphia is the City of Brotherly Love?

Time reports were in considerable detail. One of them might read: "Verifying postings, myself on the Journal, Mr. Jones on the cash book, page .. to page .. of the Journal. Footing general ledger, page .. to page ... Comparing canceled checks with cash book for the months of ....." While all time reports should indicate clearly what has been done, there is no need nowadays to go into so much detail. It must always be borne in mind, however, that a time report may be brought into evidence and is therefore an important document.

In a recent conversation with Mr. Lybrand, I mentioned that in the early days in Philadelphia the fees for our staff men were as low as \$10 per day. Mr. Lybrand corrected me by saying that they were as low as \$7 per day! The latter figure reminds me that I had a private room and three hearty meals a day in a high-class boarding house in Philadelphia for \$7 per week. We used to get 50 cents for supper when we worked and the amount was adequate.

My bonus one year was \$15 but it was wrapped in a nice Christmas package! In the years when a bonus was not given out, the students of commercial law who paraded their meagre knowledge would go around saying "de bonus non!" The hours were officially 8:30 to 5:30, but anyone who expected to maintain them was an innocent indeed. I recall a continuous period of thirteen weeks in Hazleton, Pa., when Mr. Elmer Staub, in charge of the engagement, and I worked every night except Sundays. Hazleton reminds me of the improvement in the hotels. The best hotel there had no running water in the rooms, and (this particular engagement came in the winter) we had to break the ice in the pitcher in order to wash or make a pretense of washing. Mr. T. E. Ross, who spent a lot of time on the engagement, fared the same.

We had tax problems even prior to the Tariff Act of October 3, 1913, and the beginnings of the present tax books can be found in material prepared in those days by members of the firm. Mr. W. A. Staub's brochure on the 1913 Act was a positive contribution to all desirous of gaining an interpretation of that Act. A lawyer, who is a good friend of the firm, tells how he was a law clerk when the 1913 Act was passed, and his employer suggested solemnly that the said clerk study the law as it was not unlikely that the rate of tax might some day go as high as 6 per cent!

Today the man desirous of entering the profession can prepare in one of many colleges and receive additional instruction and his practical experience under conditions of which the pioneers never dreamed.

The education and training of an accountant, however, is not complete until he is well versed in the history of his profession. To the beginner, this may seem just an additional chore but the importance of history in the understanding of any profession cannot be overemphasized. Which reminds me of what Oliver Wendell Holmes, Jr., said:

However much we may codify the law into a series of seemingly self-sufficient propositions, those propositions will be but a phase in a continuous growth. To understand their scope fully, to know how they will be dealt with by judges trained in the past which the law embodies, we must ourselves know something of that past. The history of what the law has been is necessary to the knowledge of what the law is.

Newcomers to the staff soon learn that opportunity to gain experience and to advance depends entirely upon themselves. Length of service plays a part but it is definitely not the only guiding factor in obtaining advancement. If there ever was a place where it could be said with truth that "you can't keep a good man down," that place is L. R. B. & M.'s staff. The firm offers very little comfort, however, to anyone who holds the opinion that there is a short-cut by any route other than hard work.

In bringing to an end these rambling comments, I desire to state that they are intended only to acquaint the new generation with some of the hard knocks encountered by an old hand. Forty years from now, some old staff member who is an embryonic accountant today will probably write his reminiscences which will depict hardships that *he* endured and which will doubtless put my sad comments to shame.

## Professional Activities

The accounting profession in the last twenty-five years has outstripped every other profession in rapidity of growth. The expansion has been a natural one brought about by the needs of American business and has been nurtured by the efforts of professional societies. National and state societies have stimulated and directed interest in its growth by fearlessly presenting a united front whenever its professional standing was challenged; they have crystallized ideas and standards for the clearer presentation of financial statements and other data; they have conducted a program to foster public relations, the better to serve business, management and the public at large.

Professional activities of certified public accountants embrace the taking of an active interest in national and state societies. Serving on one or more committees is an essential function. Contributions of formulated expressions of their experiences and opinions play an important part in their work, and by precept and example they strive for higher standards within the profession. Their thinking outside and beyond the present circle of ideas serves to inject life-blood in the profession to meet constantly changing conditions. Through these services the profession has merited public recognition and will continue to do so as long as the thinking of its members remains active.

### NATIONAL ORGANIZATIONS

*American Institute of Accountants.* As early as 1904, Colonel Montgomery was an advocate of one national society to represent the profession. *The Financial Record* of September 14 of that year quoted him as follows:

I feel however, that it is incumbent upon the present generation to build for the future and am anxious to see fulfilled at the earliest possible date that hope which so many have just now—*One* National Federation or Association, *One* society in each state and *All* working together for the highest ideals which alone will bring respect from our clients—the public.

In December, 1921, when the American Society of Certified Public Accountants was formed, he felt that a great mistake had been made. While there was some justification for the criticisms of the Institute at that time, he believed the evils should be, and would be corrected within the Institute itself. In his presidential report



to the New York State Society of Certified Public Accountants on July 25, 1923, he said:

It is as great a mistake to attempt to build up two strong and representative national organizations as it would be to maintain two equally strong state organizations. If the membership in two national bodies were the same we could rightfully be accused of wasteful duplication of effort and money. If the membership is not the same, each member naturally will be loyal to his own organization. It will never be possible to induce the public to devote enough time and patience to the study of the subject for it to understand why two national bodies should be maintained, even if to the practitioners there may appear to be sufficiently good reasons. We would be convicted of inefficiency in our own household and our suggestions to clients to eliminate unnecessary time and money in their affairs would inevitably lose much of their force. There is no shadow of excuse for two national bodies with *similar* aims in the same profession. There is little excuse for two national bodies with different aims. The reasonable aims of all practitioners, members of the same profession, must be the same.

The professional accountants of the United States form one group, and in order to retain our present prestige and extend it, we must maintain in each state one dominant society and in the nation, one dominant national body. Nothing would be more prejudicial to our standing than a charge that we who profess to advise others in organization methods do not ourselves know how to organize. If there were to grow up two national bodies, each with expensive offices, each duplicating most of the efforts of the other, with the same apparent aims, no matter how important the issues between them might appear to be to the members, the public—our clients—will never recognize the fine distinctions we see, but will condemn us, and properly so, for inefficient and expensive methods. And it might be embarrassing in many respects. What possible excuse could there be for two national codes of ethics? Or two national committees on standards of professional practice?

As there were diehards in both the Institute and the American Society, progress toward merging the two organizations was slow, and for over a decade the two societies went their separate ways. Early in 1935, however, when Colonel Montgomery was asked to accept the nomination for President of the Institute, he refused to run except on a clear-cut platform of merger with the Society. The retiring president of the Institute was bitterly opposed to the merger, and a rather acrimonious contest was waged for several months before the annual meeting. Inasmuch as Colonel Montgomery was elected president by an overwhelming vote, he strongly believed that a merger was in accordance with the wishes of the membership. Many meetings were held with representatives of the American Society, and an agreement was reached in time for the annual meeting

of the Institute in September of 1936. In his annual report at that meeting he said:

I have unbounded confidence in the wisdom of the merger of the American Society with the Institute. If any part of the responsibility for its consummation lies on my shoulders, I gladly assume it. But the credit and the responsibility alike belong to those leaders who put the good of the profession as a whole above all other considerations.

Colonel Montgomery was reelected President of the Institute for the fiscal year 1936-1937 and the merger was effected in that year. Since then the Institute has spoken for the entire profession.

Mr. T. Edward Ross was a Member of Council from 1926 to 1931 and again from 1934 to 1939 and a member of the Executive Committee of the Institute for five terms. The late Homer N. Sweet, in addition to being Vice-President of the Institute in 1945-1946, was a Member of Council for five terms and a member of the Executive Committee from 1945 until his death in 1948. Other partners of the firm who have served on the Council are Mr. Lybrand, the late Adam A. Ross, Colonel Montgomery, Prior Sinclair, the late A. Karl Fischer, Albert G. Moss and Donald M. Russell. The Council is the governing body of the Institute, while the Executive Committee administers its affairs and supervises its finances.

Several of our partners have served on other important committees. The late Walter A. Staub was chairman of the Committee on Accounting Procedure, of which committee Walter L. Schaffer is presently a member. The Committee on Auditing Procedure has included the late A. Karl Fischer, Alvin R. Jennings, George R. Keast, Norman J. Lenhart and Walter L. Schaffer.

Partners and staff members have been associated with numerous other committees of the Institute, including the Committees on: Nominations, Professional Ethics, Accounting Machinery, Annual Awards, Cooperation with Bankers and other Credit Grantors, New York Stock Exchange, Securities and Exchange Commission, Education, Federal Taxation, Membership, Natural Business Year, Publications, Terminology and National Defense.

*National Association of Cost Accountants.* While membership in this association is composed largely of industrial accountants, our partners and staff have maintained an active interest in this organization since its inception in October, 1919. Mr. Lybrand, the late Walter S. Gee and William F. Marsh all served as Directors, Presidents and Vice-Presidents. Donald M. Russell and John W. Conrad have served as Directors, and George A. Hewitt as Vice-

President. Many of our partners and staff have been elected officers of local chapters and many more have served on committees. Among them are: Arno R. Kassander, the late A. Charles Guy, Conrad B. Taylor, Herbert G. Bowles, Paul F. Halloran, John Hood, Jr., Prior Sinclair, Robert S. Warner.

#### STATE ORGANIZATIONS

State Societies of Certified Public Accountants not only complement the work of the American Institute but also have specific functions of their own. For example, while the American Institute takes the leadership in maintaining high standards for the C. P. A. certificate throughout the nation, most accountants recognize that state legislation regulating the practice of accountancy is primarily a local problem. Therefore, state societies are in a position to ascertain the type of legislation which is in the best interests of the public and the profession.

*Pennsylvania Institute of Certified Public Accountants.* As the firm was founded in Philadelphia, the Pennsylvania Institute was the first state society with which the members of the firm had contact. Four of the charter members of the Institute were the founders of the firm. Mr. Lybrand served as its first Treasurer and in 1902 was elected President, serving two terms. Mr. T. Edward Ross served as Secretary from 1904 to 1906, as Vice-President from 1909 to 1911 and as President from 1911 to 1913. The late Adam A. Ross was Secretary from 1904 to 1906 and President from 1906 to 1908. Joseph M. Pugh was Secretary from 1908 to 1910 and was elected President in 1917, being reelected the following year.

Beginning in 1902, the Pennsylvania Institute established an evening course in accountancy in which the class met in the offices of Lybrand, Ross Bros. & Montgomery and other members. The original class had a total membership of 19, and lectures were delivered at each session. Two of the four lecturers during the first year were Mr. Lybrand and Colonel Montgomery.

The members of that Institute recognized the lack of facilities which was hampering the development of accounting instruction. Therefore, they approached the officials of the University of Pennsylvania regarding the possibility of taking over the course. In 1904, the first evening class was held by the University with an enrollment of 126. From this modest beginning has grown the nationally known Wharton Evening School of Finance.

Since its beginning in 1897, the Pennsylvania Institute has been

among the foremost societies of certified public accountants in the nation in promoting measures designed to further the interests of the public accounting profession. In later years, younger members of the firm and the staff became active in the affairs of the Institute. Donald M. Russell was Treasurer from 1933 to 1935; the late A. Karl Fischer was Vice-President from 1938 to 1939, and President from 1939 to 1940; members of the council included John Hood, Jr., Mark E. Richardson and George A. Hewitt. Other partners and staff members served over the years on standing, special and numerous other committees.

George R. Keast was the first Chairman of the Pittsburgh Chapter and William F. Marsh was Vice-Chairman from 1931 to 1932 and Chairman from 1932 to 1933. In the Philadelphia Chapter of the Institute, both the late A. Karl Fischer and Mark E. Richardson served as Chairmen and Vice-Chairmen and James J. Mahon, Jr. as Vice-Chairman and Secretary.

*The New York State Society of Certified Public Accountants.* During the incumbency of Prior Sinclair as President of The New York State Society of Certified Public Accountants, the New York State Legislature enacted a vicious piece of legislation which affected the public interest and the profession of accountancy alike. Known as the Oliver Bill, it was introduced during the 1947 term of the legislature at the request of a member who was a noncertified public accountant. It was passed on the last day of the session without the benefit of debate or hearings. The bill provided for permitting the issuance of certified public accountant certificates *without examination* to applicants who had reached the age of forty years and had fifteen years experience in the intensive application of accountancy principles and auditing procedures. Opposition to this bill was evidenced by messages to the Governor from the presidents of virtually every state society of certified public accountants; organizations of bankers, credit men and business men in New York State; universities and numerous individuals. The text of the New York State Society's position in opposition to the Oliver Bill, signed by Prior Sinclair as President, reads in part as follows:

On behalf of this Society I wish to register opposition to the Oliver Bill. This bill would dispense entirely with educational requirements, experience in the field of public accountancy and examinations.

The proposed amendment would lower the standards for the issuance of a certified public accountant certificate which heretofore have never been lowered by the legislature since the first C. P. A. law was passed fifty years ago.

It is our opinion that if the Oliver Bill is signed by you and becomes law that within a short period of time many thousands lacking the qualifications to properly serve the public would apply for and be entitled to C. P. A. Certificates. The granting of such certificates would foster public misunderstanding and confusion, if not deceit.

We respectfully urge that the Oliver Bill be vetoed.

Despite the concerted opposition of the many responsible organizations, the Governor signed the bill. Immediately following this, the State Society announced its intention to fight for repeal of this legislation. Accordingly, under the leadership of Mr. Sinclair, the Society took active steps at the beginning of the 1948 term of the legislature to have this iniquitous law rescinded. Endless hours were spent in Albany in convincing the legislators of the inequities of the Oliver Bill and the effect that the lowering of standards for the practice of accountancy would have throughout the nation. In these efforts the Society's representatives had the very able cooperation of the American Institute's committee on state legislation.

It is most gratifying that the bill repealing the Oliver Law was signed by the Governor on March 31, 1948.

One of the New York State Society's Annual Awards for distinguished service for 1947-48 was presented to Mr. Sinclair

"for his persevering, courageous, indomitable and successful upholding of the professional dignity and responsibilities of certified public accountants when special legislative matters were under consideration. That service went far beyond any call of duty."

Colonel Montgomery was very active in the New York State Society during the 1920's. In 1921 he was elected First Vice-President; in 1922 and 1923 he was elected President. Reference has been made previously to his efforts in behalf of *one* national organization of public accountants during his presidency of this Society. In addition, he was instrumental in the creation of several technical committees which brought many younger men into active work in the Society.

The late Walter A. Staub was First Vice-President from 1930 to 1933 and President for two terms, from 1933 to 1935. During his tenure of office, three additional upstate chapters were organized which brought the members in Albany, Syracuse and Rochester into more active participation in the Society's affairs.

In addition to being President of the Society from 1946 to 1947, Prior Sinclair was Treasurer from 1929 to 1933, Second Vice-President from 1944 to 1945 and First Vice-President from 1945 to 1946.

Directors of the Society from the firm have included Norman J. Lenhart and Alvin R. Jennings, in addition to the late Walter A. Staub and Prior Sinclair.

Partners and associates of the firm have served on over fifty internal, special and technical committees of the Society in the last twenty-five years.

*Massachusetts Society of Certified Public Accountants.* Our Boston office has been most active in the affairs of the Massachusetts Society. Four members of the firm have served as Presidents. During Donald P. Perry's tenure of office as President, the Massachusetts Society adopted a resolution favoring one national organization, more than four years before the merger of the American Society with the American Institute. The late Homer N. Sweet was President from 1935 to 1936 and Albert E. Hunter from 1940 to 1941. During Mr. Hunter's incumbency all six New England states participated in an Accounting Conference at which over 400 attended. An unprecedented increase in membership occurred in 1945-1946 while Joel D. Harvey was President.

Partners and associates have served on several committees, more particularly Executive, Accounting and Auditing Procedure, Cooperation with Bankers, Bar Associations and Others, and Education.

*Other State Societies.* In every state where the firm has an office partners and staff members have been officers of state C. P. A. societies. The late Richard Fitz-Gerald, Donald M. Russell, Paul F. Halloran, Louis D. Kork, Abner J. Starr and Walter G. Draewell have been Presidents of societies in their respective states. Homer L. Miller, Walter B. Gibson, Donald M. Russell and Robert S. Warner have been Vice-Presidents. Directors of state societies have included the late Thomas B. G. Henderson, Henry C. Hawes, John McCullough, Fred C. Dennis, Myron J. Boedeker, Robert Buchanan, Carl W. Lutz and Edwin B. Cassidy.

The firm has been represented by partners and associates on numerous state society committees, such as nominations, taxation, accounting education, legislation and the like.

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Although we may look with satisfaction upon the firm's professional activities since its founding, we are reminded of Cecil Rhodes' remark "So little done—so much to do." The future will doubtless see not only a continuation but an extension of our professional activities which will show far greater accomplishment than in the past.

## Contributions to the Literature of Accounting

At the inception of the firm, guiding precedents in accounting were relatively few in number. The problems the founders had encountered in their practice as associates of Mr. John Heins were the main source of their knowledge of public accountancy. There were no accounting schools, no American accounting textbooks, nor articles on accounting such as exist today. The American accountant was often obliged to refer to British textbooks and periodicals to obtain in published form information which would assist him in coping with problems that confronted him. This literature, while helpful, was not always adaptable to American practice because the material was predicated largely upon conditions and practices in Britain.

Sir Francis Bacon in the preface to his *Maxims of Law* says:

I hold every man a debtor to his profession; from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to be a help and ornament thereunto.

The firm has endeavored to apply this sage aphorism to the accounting profession not only by the partners contributing literature themselves but by encouraging members of the firm's staff to do likewise.

As early as 1904, at the first Congress of Accountants held in the United States at St. Louis, Colonel Robert H. Montgomery presented a paper on the subject "The Importance of Uniform Practice in Determining the Profits of Public Service Corporations Where Municipalities have the Power to Regulate Rates." At the same meeting, Walter A. Staub, then a member of the staff of our Philadelphia office, won the prize for the best paper prepared by members of the staffs in accountants' offices throughout the country, the subject of which was "Mode of Conducting an Audit."

In February and August, 1906, respectively, Mr. William M. Lybrand contributed articles to the *Journal of Accountancy*: "Stock Accounts and Book Inventories" and "Municipal Accounting in the City of Philadelphia." In the latter part of 1908 and the early part of 1909, the same periodical published a series of articles by Mr. Lybrand entitled "Accounting of Industrial Enterprises," and in 1910 the *Cyclopedia of Commerce, Accountancy and Business Adminis-*

tration published his "Accounts of Holding Companies." His "Relation of Cost Accounting to Business Management—From the Viewpoint of the Professional Accountant" was published in the 1920 Year Book of The National Association of Cost Accountants. *Industrial Management* published his "Cost Accounting and its Meaning to Management" in 1921, and the *Manufacturers News* printed his "How Cost Accounting Aids the Manufacturer" in the same year. In 1923, *Manufacturing Engineering* and *Lefax* issued his "What the Production Executive Should Know from the Financial Records."

Mr. T. Edward Ross has written papers on a variety of subjects, among which are: "Annuity Funds of Religious and Charitable Organizations,"<sup>1</sup> "Contractor's Accounts,"<sup>2</sup> "Junior Accountants—Their Qualifications,"<sup>3</sup> and numerous articles on the early days of accountancy in the United States.

Another pioneer among American accountants who contributed articles toward a better understanding of accounting problems was the late Adam A. Ross. His article, "Bank Examinations," was published in the *Journal of Accountancy* in January, 1906 and in *The Accountant* in February of the same year. As an historical writer on accountancy he had no peer, as evidenced by his "Development of Accountancy in Pennsylvania," published in April, 1926.

An enumeration in detail of the writings of Colonel Montgomery would be of considerable length and a brief résumé of such a listing will have to suffice. Beginning in 1905, when he arranged with Professor Lawrence R. Dicksee to publish an American edition of *Auditing: A Practical Manual for Auditors* (which was virtually the beginning of American literature on accounting), he has contributed a host of articles and written numerous books on auditing, accounting and taxes. The more widely known are: *Auditing Theory and Practice* (six editions beginning in 1912 and a seventh edition to be published shortly); *Income Tax Procedure* (yearly editions beginning in 1917); *Federal Taxes on Estates, Trusts and Gifts*; *Financial Handbook* (as Editor); all of which have been published by the Ronald Press Company, of New York City.

As authoritative reference works these books are found in the offices of accountants and lawyers in every state of the Union and

<sup>1</sup> *Journal of Accountancy*, April, 1917.

<sup>2</sup> *Journal of Accountancy*, March, 1916.

<sup>3</sup> *Journal of Business*, University of Iowa, December, 1940.



are relied upon by many business executives as a source of information to facilitate planning and management. His books on federal taxes have been quoted by the several courts in many instances in support of their opinions, primarily because of his clear interpretation of the various Revenue Laws.

One is prompted to think that Colonel Montgomery must have had in mind the following quotation from Schopenhauer's *Psychological Observations* when he compiled his Federal Tax books, for he fearlessly took issue with the Treasury Department in respect of some of its interpretations of the various tax laws:

Opinion is like a pendulum and obeys the same law. If it goes past the center of gravity on one side, it must go a like distance on the other; and it is only after a certain time that it finds the true point at which it can remain at rest.

One of the first books written on federal income taxes was *Income Tax Guide*, by Walter A. Staub, which dealt with the Act adopted on October 3, 1913. The *Journal of Accountancy* is replete with articles on accounting and allied subjects written by him, e.g.: "Controlling Accounts,"<sup>4</sup> "Personal Property Tax in Pennsylvania,"<sup>5</sup> "Interrelation of Financial and Operating Data,"<sup>6</sup> "How to Write a Report,"<sup>7</sup> "Fallacies of the Sales Tax."<sup>8</sup> His contribution to the "Proceedings"—International Congress on Accounting held in New York in 1929, viz., "Consolidated Financial Statements," was among the important and valuable papers presented and read at that Congress and was published later in book form. He was a co-author of *Wills, Executors and Trustees*, a book published in 1933 for both lawyers and accountants on this specialized subject. He was selected by the President and Fellows of Harvard College on recommendation of the Graduate School of Business Administration of Harvard University: ". . . a man recognized as outstanding in accounting, to serve for the academic year 1940-41 as the fourth Dickinson lecturer under the foundation established in acknowledgment of the debt of the accounting profession to Sir Arthur Lowes Dickinson." In August, 1945, a few months before his death, his excellent paper "Significance of the Balance Sheet—What is Book Value?" was written for the *New York Certified Public Accountant*.

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<sup>4</sup>November, 1909.

<sup>5</sup>July, 1910.

<sup>6</sup>January, 1914.

<sup>7</sup>September, 1920.

<sup>8</sup>August, 1921.

Our recently deceased partner, Homer N. Sweet, also made substantial contributions to the literature of accounting. As one of his partners said in the L. R. B. & M. JOURNAL dedicated to Mr. Sweet's memory: "He had the rare ability of giving an opinion on any subject apparently uninfluenced by bias or prejudice." His clarity of expression simplified the solution of many problems and to quote from another of his partners: "His intense industry and sense of practicality saved him from the error of perfectionism." The versatility of his writings is exemplified in the variety of subjects he selected as being of general interest not only to the profession but to bankers and business men, e.g.: "Federal Taxes in Relation to Business,"<sup>9</sup> "Purchase Orders and Purchase Records,"<sup>10</sup> "Treatment of Commitments of Purchasers, etc., on Certified Balance Sheets,"<sup>11</sup> "Business Budget as an Aid to Bank and Borrower,"<sup>12</sup> "Bank's Attitude Toward Inventories,"<sup>13</sup> "Case for a 'Cost or Market' Basis,"<sup>14</sup> and "Amended Requirements for Financial Statements Prescribed by the Securities and Exchange Commission in Regulation S-X."<sup>15</sup>

Prior Sinclair's best known contribution to the literature of accounting is his book, *Budgeting*, written in 1934. While this work is not the first of its kind, it offers much important information not previously available. A condensation of *Budgeting* was included in *Contemporary Accounting*, published by the American Institute of Accountants in 1945. Other contributions Mr. Sinclair has made include: "Accounting Problems on Government War Contracts,"<sup>16</sup> "Internal Control from the Viewpoint of the Public Accountant,"<sup>17</sup> and "The Certified Public Accountant on the Threshold of his Second Half Century."<sup>18</sup>

Norman J. Lenhart has written papers on a diversity of subjects, such as: "Detection of Frauds and Defalcations,"<sup>19</sup> "Principles of

<sup>9</sup> *Journal of Accountancy*, August, 1919.

<sup>10</sup> *National Association Official Publications*, January, 1921.

<sup>11</sup> *Journal of Accountancy*, March, 1921.

<sup>12</sup> *Bankers' Monthly*, May, 1925.

<sup>13</sup> L. R. B. & M. JOURNAL, September, 1930.

<sup>14</sup> *N. A. C. A. Bulletin*, December, 1937.

<sup>15</sup> *Journal of Accountancy*, March, 1940.

<sup>16</sup> *Journal of Accountancy*, November, 1940.

<sup>17</sup> *New York Certified Public Accountant*, April, 1944.

<sup>18</sup> *New York Certified Public Accountant*, November, 1946.

<sup>19</sup> *Bulletin*, New York State Society of Certified Public Accountants, October, 1930 and the *American Accountant*, December, 1930.

Accounting as Applied to Current Practice,"<sup>20</sup> "To What Extent May Usual Auditing Procedures be Relied upon for the Detection of Fraud?"<sup>21</sup> "Accounting Problems Arising out of the War,"<sup>22</sup> "Development in Auditing Procedures Since the Extension of Such Procedures in 1939."<sup>23</sup>

*Retail Merchandise Accounting*, an exceptionally clear treatise on the subject, was written by Hermon F. Bell in 1936.

Despite his arduous duties as resident partner of our Detroit office, Donald M. Russell has found time to write a number of articles, such as: "Problems Raised by Government and War Orders," "Vinson Act and Amortization," "Recent Developments in War Contract Termination."

Many of our partners, other than those mentioned heretofore, have contributed articles on accounting and allied subjects over the years which have been published in a variety of periodicals, such as *The Journal of Accountancy*, *Robert Morris Associates Monthly Bulletin*, *Accounting Review*, *Dun's Review*, *National Association of Cost Accountants Bulletins*, *Business World*, etc.

The efforts of the members of the firm in contributing to literature of American accounting must have served as an impetus to the staff, for they have not been found wanting in their contributions.

One of the outstanding papers submitted by a staff member is that of Gilbert R. Byrne, who in October, 1937, won the first prize offered by the American Institute of Accountants for the best paper on "To What Extent Can the Practice of Accounting be Reduced to Rules and Standards?" This contest was not restricted solely to members of staffs but was open to all members or associates of the Institute; it is therefore all the more commendable that despite the keen competition from all parts of the country, Mr. Byrne was awarded the honor for the best paper.

Another staff member who is a well-known contributor is Arno R. Kassander. His articles have been written principally for the L. R. B. & M. JOURNAL, although some have been published elsewhere. Some of the more important papers written by Mr. Kassander are: "Cost Accounting Under the New Price Discrimination Law," "Last-in, First-out Inventory Method," "Standard Costs and

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<sup>20</sup>L. R. B. & M. JOURNAL, November, 1936.

<sup>21</sup>Proceedings of the Second Accounting Clinic—American Institute of Accountants, October, 1939.

<sup>22</sup>*Accounting Forum*, April, 1940.

<sup>23</sup>*New York Certified Public Accountant*, September, 1947.

Budgets—How Do They Control?” “Accounting and Auditing for Government Contracts.” That they have served a most useful purpose on thought provoking subjects is obvious.

Still another frequent contributor to the L. R. B. & M. JOURNAL has been William H. Davidson. Whenever a new Federal Tax Law has been enacted, he has written on such topics as “Digest of the Revenue Act,” “New Provisions of the Income Tax Law,” “Significant Income Tax Changes,” “Suggestions Regarding the Federal Law and its Administration.” As reference works for the staff and for others who have neither had the time nor the training to interpret the intent of the legislators and the Treasury Department, they have been invaluable contributions.

This narrative is far from complete; it merely mentions contributions by some of the members of the firm and staff as being indicative of the discharge of an obligation owed to the profession. It is believed, however, to exemplify the growth of professional literature and to be representative of the contributions made by our organization. For a more complete list of books, pamphlets and articles written by partners and staff members, reference should be made to the bibliography on page 139.

## Nonprofessional Activities

A recent booklet prepared by the American Institute of Accountants contains "A Portrait of the Accountant" which includes the following entitled "The Accountant is a Good Citizen":

The professional training and duties of the accountant fit him for participation in public affairs. His daily activities keep him in constant touch with current facts and trends in connection with business and industry, taxation, government, and many other related matters. Public recognition of these attributes is found in widespread selection of accountants to serve local, state and federal agencies. In addition, the professional accountant participates extensively in community activities such as church, charity, school, and public service programs.<sup>1</sup>

Members of the firm and staff have participated extensively in community relations and public interests in their respective cities, towns and states as well as in national affairs. So far as can be ascertained, there are no "Babbitts" among them—as good citizens they have been actuated by a desire to render service to their fellow men. Indicative of this is the variety of types of services they have rendered to nonprofit, eleemosynary, patriotic and like organizations.

Partners and staff members have rendered important services to Chambers of Commerce from Cape Cod to the Golden Gate. Among those who have served as officers in local Chambers of Commerce are: John W. Conrad as President of Rockford, Illinois, Chamber of Commerce; the late Richard Fitz-Gerald as Director of Detroit, Michigan, Board of Commerce; and Louis D. Kork as Treasurer, Portland, Oregon, Junior Chamber of Commerce.

Others who have served on various committees of local or state Chambers of Commerce include Henry C. Hawes, Carl T. Keller, George R. Keast, Donald M. Russell and the late Homer N. Sweet.

In local government affairs members of the firm and staff have been engaged in various activities. Offices they have held include: mayor of a city, member of a township committee, finance councilman, president of a board of education, and chairmen and members of many civic committees.

Peacetime services to the United States Government embrace those of Colonel Montgomery as Assistant to the Chairman of the Shipping Board, Executive Secretary of the Commission to Take the Profits from War, and Chief of the Division of Research and

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<sup>1</sup>*How to Have Good Public Relations.*

Planning, N.R.A.; Homer L. Miller as Economist of the Code Committee of the Salt Producing Industry, N.R.A.; and Walter L. Schaffer on the Panel of Accounting Matters, U. S. Atomic Energy Commission.

The late Walter A. Staub gave endless hours of service as Chairman of the Finance Committee of the Northern Baptist Convention and as a member and president of the Board of Trustees of Overlook Hospital in Summit, New Jersey. Colonel Montgomery was President of the Methodist Social Union of New York City, a member of the Board of Trustees of the United Hospital Fund and Treasurer and Director of the Downtown Community House, Inc., both of New York City. Walter B. Gibson has been a member of the Board of Trustees of the First Congregational Church of Los Angeles, California, and a member of the Board of Governors of the Wilshire, California, Y.M.C.A. The late T. B. G. Henderson was a Director of the Greenwich, Connecticut, Y.M.C.A. and Mr. T. Edward Ross for many years was a member of the Board of Trustees of the Presbyterian Hospital in Philadelphia. Fred C. Dennis was President of The Optimist Club of Cincinnati, an international organization for underprivileged boys.

Numerous members of the firm and staff have participated in other public services, such as committees of the American Red Cross, as members of finance and other committees of Community Chests of various cities and towns, unemployment relief committees and the like. One of our partners was a life trustee of the University from which he was graduated, another a member of the Executive Committee of the Civic Light Opera Association of Los Angeles, and a third on the New England Governors' Railroad Committee for a period of a year.

It has been the aim of the firm and its associates to contribute their services to worthy causes; the rewards have been rich in the friendships made through these associations and in the inherent satisfaction gained from our unremitting efforts on behalf of others.

An insight into the cultural and educational interests of the founders of the firm may be obtained by reference to previous issues of the L. R. B. & M. JOURNAL. The JOURNAL has discussed in detail their gifts to universities, museums and other institutions. A brief description of the more important contributions follows:

In 1948, Mr. Lybrand presented to St. John's Church, Overbrook, Pennsylvania, a 6 x 12 foot painting of "Jesus by the Sea of Galilee." The painting, by Ralph Pallen Coleman, was installed behind the

pulpit in the Colonial-style chancel. Mr. Lybrand's gift was in memory of his great-grandfather, George William Lybrand, founder and for many years a trustee of St. John's, one of the oldest English-speaking Lutheran churches in America.

Mr. T. Edward Ross presented his collection of rare Bibles to the University of Pennsylvania Library on July 1, 1946. A description of the collection appeared in *The Pennsylvania Gazette* and its content is summarized below.

The collection, which consisted of more than one hundred Bibles, was acquired by Mr. Ross over a period of twenty-five years and was given in memory of his stepson, Lucian Bonaparte Carpenter, who died on January 24, 1946.

The gift was formally accepted for the University by President George Wm. McClelland, who referred to the collection as "one of the most important gifts received by the University Library in recent years" and predicted that "it will be of inestimable value to students of Biblical literature who will have access to it."

In memory of his brother, Adam Averell Ross, Mr. T. Edward Ross established in 1939 two prizes to be given to outstanding students in the Wharton School of Finance and Commerce of the University of Pennsylvania. These prizes were created on a basis which would permit their being awarded annually for a twenty year period. At the 184th Commencement of the University of Pennsylvania for the Conferring of Degrees, held on June 12, 1940, the prizes were awarded for the first time. The Commencement program contained the following description.

#### IN THE WHARTON SCHOOL

*The Adam Averell Ross Prize* of twenty-five dollars, founded July 11, 1939, by Mr. T. Edward Ross in memory of his brother, awarded to the student who, having majored in Accounting, gives most promise of success in that field on the basis of character, scholarship, and personality.

*The Adam Averell Ross Prize* of twenty-five dollars, founded July 11, 1939, by Mr. T. Edward Ross in memory of his brother, awarded to the student who has majored in Accounting in the Post-Graduate Division of the Wharton School and has presented the best thesis for the Master of Business Administration degree.

Colonel Montgomery evinced keen interest in the founding and development of the Fairchild Tropical Garden at Coconut Grove, Florida. At the testimonial dinner on May 6, 1939, to celebrate the fiftieth anniversary of his entry into the accountancy profession, his partners presented a gift to the Garden which would enable it

to provide a library and museum building. On February 7, 1940, the Montgomery Library-Museum in the Fairchild Tropical Garden was dedicated.

The following excerpts which appeared in the *Miami Daily News*, set forth the nature of the Garden and the purpose the building is to serve:

Fairchild Garden is located on E. Ingraham Highway, two miles south of Cocoplum Plaza, Coconut Grove, just south of Matheson Park. The botanical garden, planned to rival ultimately Kew Gardens and other similar enterprises in India, was made possible by a contribution which included 83 acres by Colonel Robert H. Montgomery. The combined library-museum is a contribution from Montgomery's friends.

There was no precedent for the building, the first tropical library-museum known, Robert Fitch Smith, architect, said.

In its planning Smith combined the spirit of a tropical museum with a fresh interpretation of rustic tropical architecture. Its white roof and light, cream-colored stone walls stand in contrast with the adjacent setting of tropical growth.

On the door of the building is a bronze plaque with the following inscription:

This building was presented to the  
FAIRCHILD TROPICAL GARDEN

by the members of the firm of  
Lybrand, Ross Bros. & Montgomery  
as a tribute of esteem and affection  
to their partner

ROBERT H. MONTGOMERY

and in commemoration of his com-  
pletion of fifty years of practice in  
the profession of public  
accounting

February 7, 1940

Mr. Lybrand presented the building key to President Merrill and ended his remarks as follows:

And so all of Colonel Montgomery's partners are more than happy to have had a small part in the development of this great project. May it grow steadily in importance and never fail to command the hearty support of all of this community and the many visitors to this lovely land.

Many thousands of visitors, including General and Mrs. Dwight D. Eisenhower, have enjoyed the botanical exhibits at the Garden.



Among the seven who received the first Thomas Barbour Medals, given for "Distinguished service in the preservation of South Florida," were Colonel Montgomery, Founder of the Garden, and Mr. Lybrand, who was primarily instrumental in presenting the Museum Building.

Readers would be charmed by the recent book entitled "Fairchild Tropical Garden," by Lucita H. Wait, a well-known amateur horticulturist and associate editor of the Fairchild Garden's *Bulletin*. This book presents in an informing and interesting manner the growth and development of the Garden during its first ten years.

In 1926 Colonel Montgomery gave to Columbia University, New York, his collection of old and rare accounting books which had taken him many years to assemble. He had circularized the entire world in gathering together the collection. One of his first acquisitions was the account book of a slaveship, which contained detailed records of all receipts and payments. Of more historical importance were books showing expenditures of kings and queens and nations and records of business enterprises commencing with the fifteenth century. Every year rare books on accountancy are added to the collection; reference to such additions is made in the annual reports of the Director of Libraries at Columbia University. One of these reports said: "We believe the Montgomery Library will have even greater world importance for research as its resources are developed, and there can or will be less dependence on European sources. There are no other libraries on this continent that can compare with it in wealth of accounting history materials."

Some idea of the value placed on this collection by Columbia is shown by the following excerpt from the 1943 report by Mr. Walter Hausdorfer, librarian of the School of Business:

In accord with the action of the University Libraries to protect valuable books and manuscripts, practically all of the Montgomery Library was moved to a safety zone in South Hall. While the materials are thus protected from damage or destruction through possible air raids, they can be obtained upon short notice. Only a few late editions and occasional manuscripts for convenience of examination were left in the Business Library stacks and cases.

## World War II

Partners and staff members did not wait until the attack on Pearl Harbor to offer their assistance to the country; many volunteered to help prepare for defense long before the treacherous act of the Japanese.

In the spring of 1941, Prior Sinclair was requested to organize a panel of supervisory auditors in the Third Naval District to have as its primary function the reviewing and reporting upon the quality and adequacy of the work being performed by the cost inspectors attached to the Navy. Mr. Sinclair was appointed Chief Supervisory Auditor, with Alvin R. Jennings as alternate. Others of our New York office who served on the Third Naval District panel were Christopher H. Knoll, George W. McIver, Jr., and Gilbert R. Byrne. Examinations made by members of the panel were reported upon and contained recommendations which it was believed would lead to improved cost inspection by Navy personnel.

In the fall of 1941, Mr. Jennings was called to Washington to review the reports which had been submitted by panel members in the various naval districts and to prepare a summarized report to the Secretary of the Navy outlining the scope of the work done, the findings and pertinent recommendations. After Congress enacted the Renegotiation Act in 1942, the Navy called upon the panel to make certain investigations of an accounting nature and to participate in other ways in the administration of that Act.

Partners and staff members of offices other than New York also participated in this work in the various naval districts throughout the country. In the Fourth Naval District, Harry H. Steinmeyer and Carl H. Zipf of our Philadelphia office were members of the panel of supervisory auditors, and Louis D. Kork of our Cleveland office participated in the same capacity in the Ninth Naval District.

A resident partner of our Los Angeles office and a staff member of our Boston office were members of the local Draft Boards in their respective cities. One of our New York staff supervisors, Harry O. Leete, was chairman of a local Selective Service Board for six years beginning in October, 1940. He was the recipient of a letter from Colonel Arthur V. McDermott, Director of Selective Service, New York City, in August, 1942, which reads in part as follows:

In going over our records of quotas and deliveries from our 280 local Draft Boards of Greater New York for the past six months, I was extremely gratified that your Board has met every call practically 100 per cent.

It occurs to me that you have very likely worked out a certain system and procedure in your Board which would be helpful to other Boards in meeting their quotas. I would be very glad to have you write me as to how you handled the problems of classification, hearings and general routine work of the Board in order that we may give the other Boards the benefit of your experience.

The aforementioned staff member was also on the New York City Mayor's Committee for the "I am an American Day" meeting held in Central Park at which over a million persons were present.

The late A. Karl Fischer of our Philadelphia office was a flying member of the Civil Air Patrol on Coastal Submarine Service and later was a civilian two-pilot and glider instructor at an Army Glider basic training detachment. On April 30, 1948, he was awarded posthumously the Air Medal for his services in the Civil Air Patrol, the citation for which follows:

FIRST LIEUTENANT  
ADOLPH KARL FISCHER, 2-2-388  
CIVIL AIR PATROL

For meritorious achievement while participating in antisubmarine patrol missions during World War II. The accomplishment of these missions in light commercial type aircraft despite the hazards of unfavorable weather conditions reflects the highest credit upon this valiant member of the Civil Air Patrol. The high degree of competence and exceptional courage he displayed in the voluntary performance of a hazardous and difficult task contributed in large measure to the security of coastal shipping and military supply lines. His patriotic efforts aided materially in the accomplishment of a vital mission of the Army Air Forces in the prosecution of the war.

(S) HARRY S. TRUMAN

*The White House*

Other partners and staff members "did their bit" in a civilian capacity as squad leaders for auxiliary police, as air raid wardens, as members of the Coast Guard auxiliary, as chairmen and members of committees for War Loan Drives and for the United Service Organizations and many like activities.

Virtually all of the civilian pre-Pearl Harbor and wartime services were rendered "after hours," in all seasons of the year, and strictly on a voluntary and uncompensated basis. And this despite the shortage of manpower necessary for professional services, and the Herculean problems of our clients brought on by the exigencies of war!

During World War II, 408 staff members and 18 administrative assistants served in the armed forces. These men were stationed in

every corner of the globe, but they were not forgotten by the firm and their associates. In an attempt to keep them posted concerning the whereabouts of their colleagues and the news of happenings at home, an innovation was initiated in the Philadelphia office which later spread to the New York and Boston offices. Shortly after the outbreak of war, the Philadelphia office sent the first of a series of letters to its members in the armed forces. Under the capable editorship of Ivon A. Feenie, the Philadelphia letters contained items of interest such as locations of service men where censorship permitted, promotions, marriages, births and excerpts from letters received from those in the armed forces.

The good example set by the Philadelphia office prompted New York to follow suit. Accordingly, the first *Broad Street Post* took shape and was issued in March, 1943. Its reporter, editor and "major-domo" was Louis H. Rappaport. The boys in the service obviously enjoyed the *Post* and appreciated particularly its informality.

Our Boston office issued the *Boston Office Letter*, containing "Gleanings From Incoming Mail," "Editorial Reflections," news of the home front and featuring in some instances photographs. F. C. Thompson played the principal part in the compilation of this publication.

We on the home front were proud to read a number of interesting newspaper accounts about the activity of Charles Beasley during action against Japanese forces on Guadalcanal. In the September, 1943, issue of *Harper's Magazine* he was mentioned in "Marine, You Die!", an article by Lieutenant Edward Lincoln Smith II. Two of his citations follow:

For conspicuous gallantry and intrepidity as an operations and training officer of the First Marine Division, during action against Japanese forces on Guadalcanal, Solomon Islands, on November 7-9, 1942. While engaged in operations to the west of Notapona River, in an area infested with harassing groups and snipers, Capt. Beasley, although previously wounded in a skirmish with the Japanese, persisted in continuing his duties.

Frequently operating in advance positions under hostile fire, he carried on throughout a severe engagement on November 8, rendering valuable assistance until the situation had become secure. His courageous endurance and utter disregard of personal safety were in keeping with the highest traditions of the United States Naval Service.

For bravery and devotion to duty during engagements with the enemy in the Solomon Islands from September to early December, 1942. Throughout the entire period Capt. Beasley served with honor and distinction.

During the enemy attack by a numerically superior force on October 24, he was serving as battalion operations officer. Under severe enemy fire and in the face of repeated assaults he performed his duties with great skill and courage.

With a complete disregard for personal safety and extreme fatigue he carried out his duties with intelligence and dispatch. The highly efficient manner in which he issued and carried out orders contributed greatly to the rout and virtual annihilation of a Japanese regiment which resulted in a Marine victory.

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Unfortunately, data are not available concerning other staff members who received citations or awards for their part in the armed conflict. Their heroism, like that of Capt. Beasley, exemplified the devotion to duty inherent in every American which helped to make victory possible.

Attempts to express in words our feelings toward those who gave their full measure of devotion would be futile. Their sacrifice needs no eulogy.

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### *In Memoriam*

CAPTAIN HENRY K. EMERSON  
LIEUTENANT WILLIAM J. FARRINGTON  
LIEUTENANT EUGENE F. JEHLIK  
TECHNICAL SERGEANT ALBERT I. MCGRATH  
ENSIGN FRANCIS D. REARDON  
LIEUTENANT JOHN C. WIKE

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## Some Effects of S. E. C. Legislation

The passage in 1933 of the Federal Securities Act presented to public accountants both a challenge and an opportunity. Accountants had rendered services to investment bankers for many years prior to 1933 and had become accustomed to the exacting demands of the underwriting business. Although the standards of financial reporting were largely informal, they were being constantly improved even before the New Deal. With the enactment of the first Federal statute governing the sale of securities in interstate commerce, the standards were formalized and raised. At the same time, liabilities were imposed on issuers of securities, underwriters and certifying accountants for misleading information in registration statements and prospectuses and for omission of required information.

The law resulted in many changes in the business of underwriting securities, but from the viewpoint of the investment banker, perhaps the most important change was the enforced waiting period after a registration statement was filed with the Commission, during which period he is not at liberty to offer the securities for sale to prospective investors. Not until the Commission declares the statement effective may he proceed to sell the securities. This is a far cry from the old days when the offering was made as soon as the investigation was complete and the newspaper advertisement in type. Because of the time required to complete an offering today, the element of risk in the underwriting business has increased tremendously. The S. E. C. is aware of this problem and has relaxed its rules to the extent that it permits the circularization among interested persons of a preliminary prospectus (called a "red herring") in advance of the effective date with a notation printed in red to the effect that an offering will not be made nor will orders be accepted until the registration statement becomes effective. This is a step, but only a step, in the direction of reducing an unreasonable risk in a business accustomed to accepting risks.

Bulky prospectuses, running in many cases to a hundred pages or more, have become so commonplace today that it seems difficult to believe that an offering circular in the old days was rarely more than a page or two. The change has not been confined to any one part of a prospectus; it has affected all parts—the financial as well as the narrative sections. Nobody—not even the S. E. C.—is happy about the size of most present-day prospectuses, and lawyers and accountants are striving constantly to condense prospectuses and

registration statements through the elimination of nonessential information. In the fifteen years since the law was passed, there has been considerable progress in this respect. With the cooperation of the S. E. C. and others concerned, more can be accomplished.

A public accountant who participates in a registration engagement under the 1933 Act might conceivably open himself to a lawsuit and damages many times the amount of his fee. Some accountants therefore have refused to certify financial statements for filing under the Act; others have been reluctant to do so. All of the larger accounting firms, including our firm, have accepted the legal responsibilities which flow from participation in registration work, with heartening results not only to them but to their clients as well.

Since the law was passed, thousands of registration statements for the issuance of many billions of dollars of securities have become effective. Our firm has served a large number of clients that registered securities under the Act for sale to the public. These clients constitute a cross-section of American industry with representation in the fields of public utilities, investment trusts, and companies engaged in the manufacture of tobacco products, building materials, petroleum products, textiles, chemicals, automobiles, rubber, machinery, foods and other products. In 1947 alone, we participated in more than fifty registration statements involving a public offering price of more than \$2,100,000,000.

## Staff Education, Selection and Training

As our firm is one of the oldest public accounting firms in the United States, a fifty year review of its activities in staff education, selection and training should be of general interest. This is especially true if we recall that the first C. P. A. law in this country was enacted only fifty-two years ago and that the profession has grown phenomenally, not only in numbers, but in stature during the intervening years.

Today, education in accounting at collegiate level is a generally accepted requisite for positions with public accounting firms; prior to 1900, such educational opportunities did not exist. In those days, there were no schools at collegiate level offering accounting courses, and furthermore, there was very little accounting literature for those who planned on making public accounting a career. Staff members were selected from men employed as bookkeepers with firms and corporations or occasionally from young men who had attended a business school where bookkeeping and general business subjects were taught.

The training received by staff members was in the school of experience. They usually worked closely with the principal of the firm, and through the process of survival of the fittest, staffs of trained men were developed. Their development sometimes took much longer than we now consider necessary; it should be mentioned, however, that a number of these trainees later became leaders of the profession.

In 1902, the Pennsylvania Institute of Certified Public Accountants sponsored an evening course in accountancy, which held some of its sessions in the offices of our firm in the Stephen Girard Building, Philadelphia. The school consisted of nineteen students and a faculty of four, two of whom were founders of our firm. Mr. Lybrand taught Practical Accounting and Colonel Montgomery taught Theory of Accounts. The subjects covered by the other members of the faculty were Auditing and Commercial Law. (How familiar these four subjects sound to those in professional accounting today! Throughout the years, even to 1948, these have been the subjects which must be successfully completed to obtain a C. P. A. certificate.)

This school was conducted for two years; meanwhile negotiations had been undertaken with authorities of the University of Pennsylvania with the idea of the University taking over the work of the



evening school. Because of a building program, then under way, the University was loath to assume the responsibility for a new venture which might be operated at a loss. Subscriptions were procured from members of the Pennsylvania Institute to guarantee any deficit which might arise. In May, 1904, the organization of the Evening School of Accounts and Finance was authorized by the University and the opening session was held September 30. From the first, the movement proved to be self-supporting and the guarantors were never called upon for any part of their subscriptions.

The University of Pennsylvania was the second school at collegiate level in this country to offer courses in accountancy and related subjects. Four years earlier, in October, 1900, New York University School of Commerce, Accounts and Finance came into being through the direct efforts of the New York State Society of Certified Public Accountants. These were the forerunners of many universities which, during the following twenty-five years, inaugurated business schools and granted degrees for specialization in business subjects. For a number of years, however, these schools did not graduate an adequate supply of men for professional accounting, and it was necessary for public accounting firms to train their staffs along these lines.

From the first, the education of juniors was a policy of our firm. Although for some years there was no organized classroom training, courses of study were prescribed for beginners under the direction of a partner or staff supervisor and attendance at evening schools was urged. As the staff increased through the years, it seemed desirable to expand our training methods even though more of the men then employed were carefully selected graduates of schools of accounting. There was evidence that these graduates would be assisted materially by further instruction to bridge the gap between theory and practice.

After considerable thought had been given to this problem, it was decided in 1916 to institute an intensive course of study during the summer months. The program was placed under the direction of a well qualified supervisor, and the instruction was of a practical nature, using actual sets of books of defunct companies, as well as the various blanks and forms customarily used by the firm in its work. From time to time, group meetings were held so that the peculiarities of various types of audits, such as banking, stock brokerage, manufacturing, mining, etc. could be discussed. In this way, juniors obtained some familiarity with different types of

engagements to which they might be assigned. The course was planned to include definite instructions concerning the confidential nature of the accountant's work, his responsibility to the firm, and his relations with clients, their officers and employees. Emphasis was placed on the necessity for a wide awake attitude and for care and exactness in all work, even in matters which might seem of minor importance.

Because of the difficulty in securing graduates for our staff during World War I, the course was temporarily discontinued, but was resumed in the summer of 1921, and was conducted annually thereafter for several years with little change in pattern.

Then we came to the boom years in the late twenties. Our firm and the profession generally had expanded rapidly during the past decade and although the colleges were graduating more men who had specialized in accounting, the number entering the profession was insufficient to meet the demand. By this time, the firm was thoroughly convinced that a college background, including both cultural and business subjects, was a requisite for entrance in the profession. Since an adequate supply of college men who had majored in accounting was not available, we employed a number of men who had received degrees in arts or sciences and who had obtained little, if any, technical training in accounting.

This posed a new problem in staff training which was resolved by holding classes continuously during working hours from June to December. Beginners who did not study accounting at college attended these classes for two consecutive years and, in addition, by previous arrangement, enrolled in evening courses in accounting. Those who had studied accounting in college attended classes only for one year, and obviously their training was pitched at a much higher level. This program was an interesting and valuable experiment. The results indicated that the non-technically trained beginners generally took four or five years to attain equal rank with those who had received technical training in college before employment. Unfortunately, our experience was inadequate to draw any definite conclusion concerning the relative peak attainment of these men. The program continued in effect until the depression years.

Training classes were resumed several years later. In the interim, New York State had amended its C. P. A. law relative to the educational background of applicants seeking to take the examinations. The amendment which, in effect, requires such applicants after January 1, 1938, to be graduates of a four year college course with an

accounting specialization sets forth the most rigid scholastic requirement contained in any state law. The firm, having offices throughout the country, has also made this a basic requirement for employment so that staff members in all of our offices would be scholastically qualified to become certified in New York or in any other state in the Union.

Accordingly, the men employed for our post-depression training schools possessed a generally uniform educational background. These men, in many instances, were interviewed at their universities and colleges a few months before graduation by partners or other representatives of the firm. The training class was scheduled to start shortly after these beginners reported for work, and the first two and one-half to three months of their employment were spent in our school. During this period, they received instruction under the direction of a staff supervisor, completed an audit work set, solved arithmetical problems, reviewed audit working papers, etc., which gave them a better understanding of auditing practice and their work as a junior accountant. The last training class prior to World War II was held in the fall of 1941, and within six months after the completion of the course practically all of the men who had attended that class were in military service. A happier note is that most of these men returned to us after receiving their discharges.

As the war progressed, greater and greater difficulty was experienced in obtaining young college graduates for the staff. Therefore, it was early recognized that a primary post-war project would be to replenish our junior ranks and to provide training courses fitting the needs of discharged veterans. Since the termination of the war we have interviewed hundreds of students at universities and colleges in all parts of the country and have selected a substantial number for our staff.

Our first post-war class, which was held in the fall of 1946, was unique in that it was composed of many trainees who were not students in the normal sense. These men, generally, were somewhat older and more mature in outlook than those in pre-war groups. Their experience backgrounds also differed. Most of these trainees had either public accounting or business experience for short periods before entering military service. Consequently, the training program for these men was planned to serve a twofold purpose—refresher and orientation. A similar variation in age and experience background existed in the 1947 school, although to a somewhat lesser extent. The same basic training program was used in both years but was

modified by the instructor, as required, to meet the needs of each class.

These programs were conducted under the direction of one of our staff members, who was exceptionally well fitted for this work both by temperament and experience in public accounting and teaching. The training period covered eight weeks during the firm's regular working hours and included the following basic features:

1. Audit practice set.
2. Lectures by partners, supervisors and seniors.
3. Talks by students.
4. C. P. A. examination problems.
5. Mathematical problems.
6. Business machines.

The course was well integrated and each of the above features formed an important component. However, it appeared that the lectures given by different partners, supervisors and experienced seniors were of greatest value. Approximately 30 lectures were given in each year, requiring about an hour and a half of class time—an hour being devoted to their presentation and a half hour to a question and discussion period. The subject matter of the lectures, where feasible, was illustrated with examples from actual practice and by reference to actual working papers and reports. A wide range of subjects was covered emphasizing, especially, auditing in its broader aspects and in its practical application.

The training program for the current year was revised to meet the educational background and maturity of the trainees; it embraced a six weeks program somewhat along the lines used in the previous two years, but with greater emphasis upon the use and preparation of working papers. We plan for this group to attend a session for approximately four weeks next spring. Their work during the winter months will be reviewed and specific faults which had been observed will be reviewed generally with the group. This spring session will also give trainees an opportunity to discuss any questions which had arisen during their assignments. Only a few days will be allotted for discussion of the foregoing matters; the balance of the time will be devoted to instruction of a more advanced nature.

Training programs of this character are not always feasible for some of our smaller offices, but arrangements are often made to send beginners to those offices where formal training courses are

given. The cost of these training programs is not negligible but the results justify the expenditure.

When writing on this subject it seems natural to place emphasis on training for beginners and to comment particularly upon the instruction they receive previous to being assigned to audit engagements. Training in actual practice is perhaps, however, the most important training any man receives; it is here that he puts the theory he has learned into practice and it is here that he will rise or fall, according to his abilities to apply the fundamentals and to distinguish between the important and the unimportant.

Although our programs do not prescribe a definite method for training the beginner after assignment to staff work, there are certain general practices we follow which facilitate his progress. He receives specific instructions with reference to the work assigned to him and its relation to the engagement as a whole. He is guided in his relations with clients and encouraged in his work; of equal importance, his work is constructively criticized. Care is exercised in making assignments so that the beginner obtains diversified experience under the direction of different seniors and supervisors.

Training does not cease at the junior level, but continues as staff men advance towards the senior and supervisory grades. When they attain these ranks, training and experience become practically synonymous, and the training method is basically one of careful supervision and personnel administration. However, with the breadth of professional work, it is understandable that even staff members in the top echelon cannot be expected to be specialists in every field of business. When we find that we have too few men with adequate knowledge in specialized fields, such as banking or stock brokerage, classes are organized and conducted over a period of several days, or weeks if necessary, to remedy this condition.

Staff meetings constitute another medium for staff training. Such meetings are held for the purpose of considering research bulletins issued by the Committee on Accounting Procedure or the Audit Procedure Committee of the American Institute of Accountants. Other meetings are held to review changes in tax laws and special matters concerning auditing practices of a contemporary nature. Still another means by which the firm keeps the staff currently informed are office bulletins which are issued concerning changes in accounting and auditing practices, in Securities and Exchange Commission regulations, in tax laws and important rulings, and relating to numerous other matters of professional significance.

The success of any training program hinges on having current knowledge of each staff member's progress and advancing staff members in accordance with their abilities. In our larger offices, the partners are kept currently informed concerning the progress of staff members through the use of written personnel reports prepared by seniors and supervisors covering the work of their assistants. The reports are quite complete, including ratings as to auditing ability, professional qualifications, qualifications for self-expression, personal qualifications, staff classification (i. e., junior, semi-senior, etc.), and ability to assume more responsible work. Space is also provided on the personnel report for comments relating to outstanding favorable qualifications or faults or serious shortcomings.

The men who prepare these reports are completely familiar with our personnel practices, most of them having been with us for a number of years, starting in our training schools. The written reports are supplemented by oral reports and both reports form a basis for judgment in making assignments and in advancing staff members to more responsible work.

The foregoing account is necessarily brief; but the activities of the firm and the staff in the promotion of education and training for accountants are a matter of record in numerous publications. Our personnel practices have been developed and revised over the years to meet current conditions. The *esprit de corps* throughout our organization is adequate evidence of the soundness of these practices. The firm has reason to be and is proud of its staff.

## Staff Activities

From time to time various offices of the firm have held formal and informal dinners, Christmas and anniversary parties, golf and tennis outings, and regional meetings. Clubs have been formed and the staff has participated in other affairs. A few of the more outstanding activities are described below.

### QUARTER CENTURY CLUB

In 1944, the firm instituted the custom of awarding inscribed watches to members of the New York staff with twenty-five years service. The original presentation took place on August 15 of that year at the outing at Pelham Country Club. Six members of the staff were eligible for the award. Since then, the Chicago, Boston and Philadelphia offices have made awards to staff members having served for like periods.

Later in 1944, the New York members elected to organize formally. The name "Quarter Century Club; L. R. B. & M. New York" was selected and Articles of Association and By-Laws were adopted. Incorporated in the Articles of Association is the following:

The purpose of the Club shall be to promote through fellowship and good will the common interests of the staff and the firm.

The initial meeting of the Club and the more important meetings since have each been attended by a member of the firm upon invitation of the Club. The Club has maintained minutes of its meetings and periodic reports have appeared in the L. R. B. & M. JOURNAL.

The present membership is 14 and new members will be added upon completion of twenty-five years service. The member with the longest service has been associated with the firm for nearly forty years. It is hoped that in due course there will be one club embracing all offices so that its influence in promoting staff fellowship may be felt throughout the organization.

New York staff men who are members of the Quarter Century Club are listed below:

R. B. Babeuf	D. Hardie
N. B. Bergman	H. O. Leete
H. E. Bischoff	R. M. Ormiston
E. M. Bush	G. W. Pavelka
R. G. Flachbart	D. D. Pierce
R. F. Grover	H. P. Schlichtman
E. C. Halter	S. A. Stahlschmidt

Other members of the staff and employees who have been associated with the firm for twenty-five years or more, follow:

*Boston*

E. G. Boutelle  
 A. G. Harlow  
 L. Koallick  
 F. E. Moore  
 J. B. Moore  
 J. K. Sanborn  
 F. C. Thompson  
 E. E. Wakefield  
 S. W. White  
 F. E. Lawson  
 Laura M. Marshall  
 Ruth H. Snow  
 F. M. Weeks

*Chicago*

W. D. Buge  
 H. L. Hoffman  
 W. Merkle  
 Marion E. Ayres  
 Margaret M. Casey

*Cincinnati*

A. J. Starr

*Los Angeles*

C. S. Black  
 R. A. Bottenfield  
 Elizabeth K. Nevin

*Pittsburgh*

Margaret M. Greene

*Rockford*

J. W. Conrad

*Washington*

J. M. Haynes  
 Olive C. Wadlin

*San Francisco*

W. G. Draewell  
 F. P. Karg  
 C. F. Smith

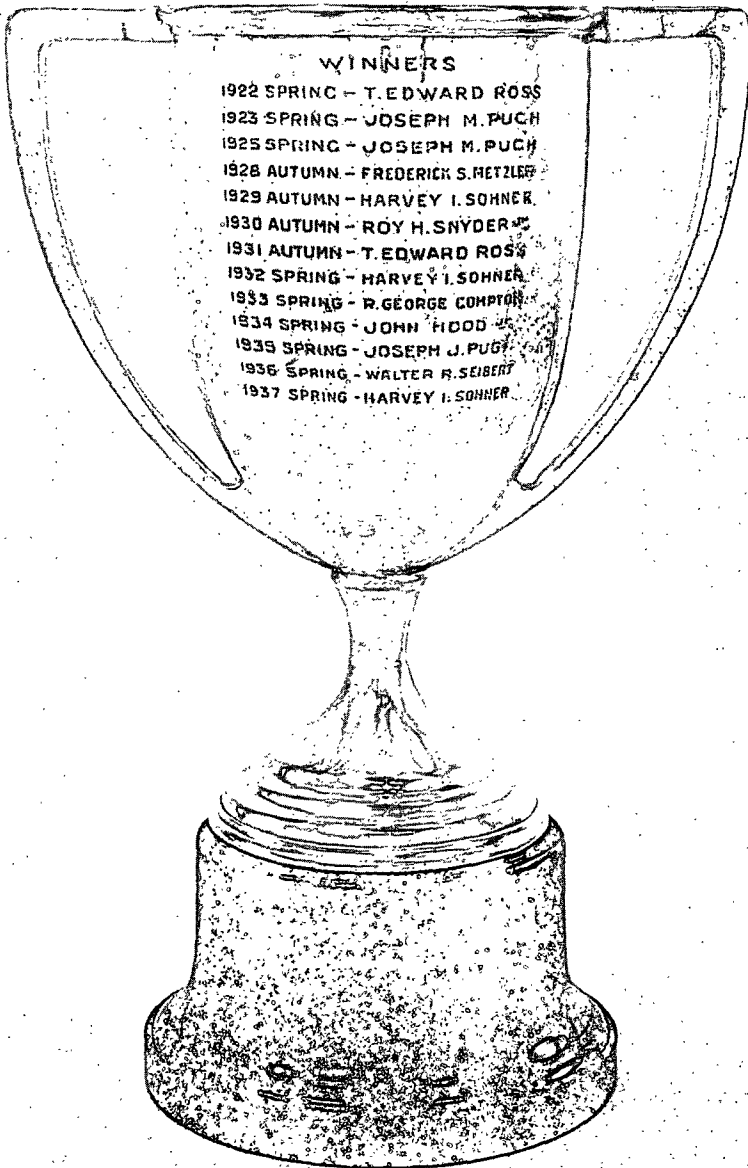
*New York*

G. Archer  
 Edythe M. Cackett  
 Fannie Morris

*Philadelphia*

F. R. Bloomburg  
 L. A. Carfrey  
 J. M. Carson  
 W. J. Casey  
 H. S. Kreider  
 F. Martin  
 T. S. Mitchell  
 H. I. Sohner  
 R. J. Nichols  
 L. L. Tanguy  
 F. R. Kincaid  
 Ivon A. Feenie  
 Madeline C. Moesinger  
 Florence R. Brizendine  
 Cecilia M. Murdoch





The Hood Cup

## THE BUNKERS CLUB

*(Philadelphia Office)*

(Not affiliated with the P. G. A.)

According to the report in Volume 1 of our Firm Journal, The Bunkers Club of this office held its first annual golf tournament at Seaview Golf Club, Absecon, N. J., on November 10, 1920, with eight participants—J. M. Pugh, D. R. Anderson, C. R. Bready, L. W. Brown, F. E. Hare, W. H. Keeler, Jr., W. A. Long, and F. S. Metzler. The reporter neglected to record any scores, but apparently "Hare Ran Off with the Prize," and even that is not definitely mentioned.

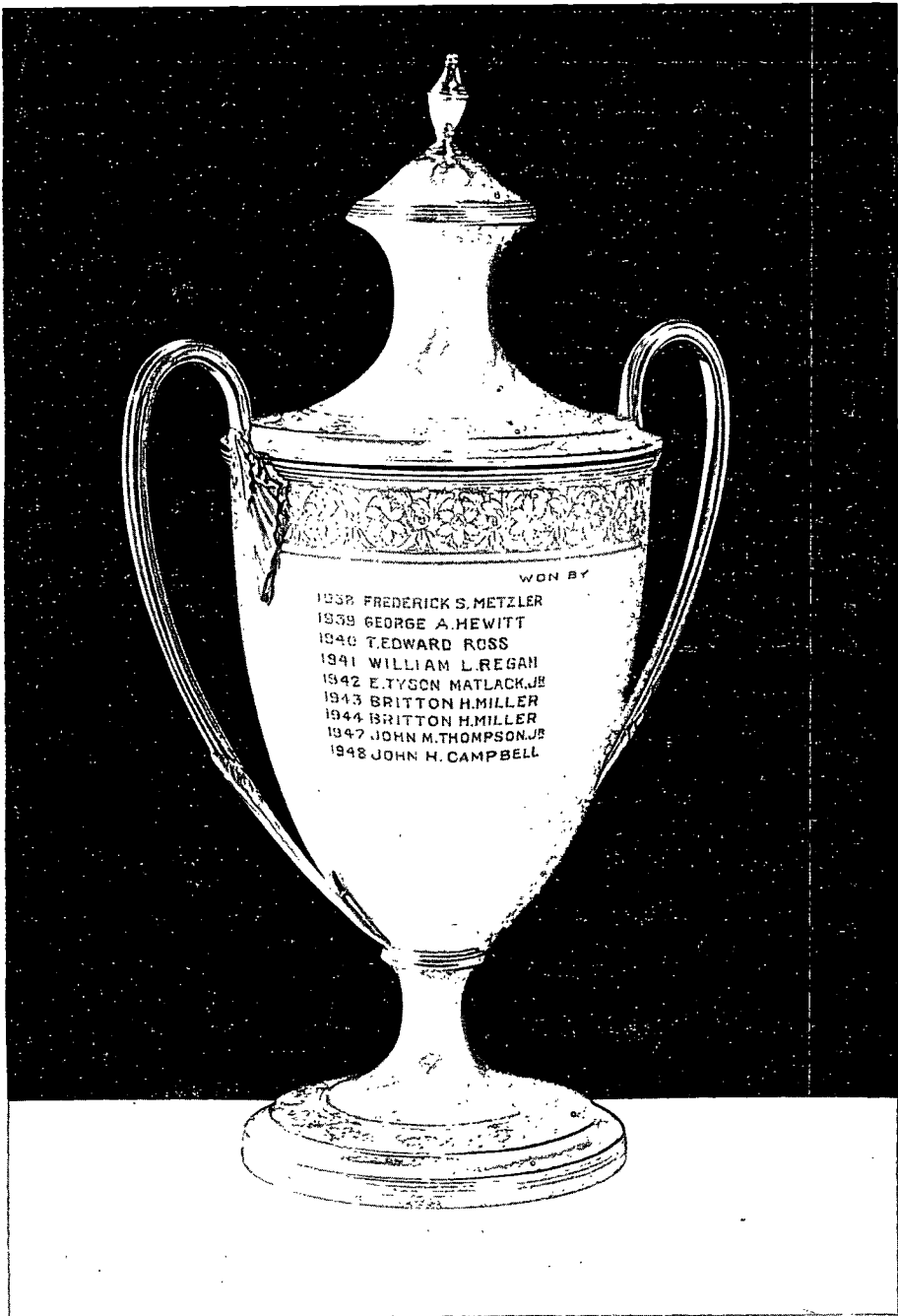
In 1921 the scene of action was again Seaview on October 31, the winner being F. S. Metzler.

Many hundreds of words were written about these first two outings, covering the trips to and from Seaview, as well as the meals and indoor pool at the Club, and a catastrophe or two, but no details as to the prizes, etc.

So, probably in order to put the affair on a sound basis, John Hood, Jr. felt the urge in 1922 to donate a very beautiful silver trophy—The Hood Cup—to be competed for annually, a contestant winning it three times to retain permanent possession thereof.

For the record, we give below a list of the dates, location of our tournaments and winners from 1922 through 1937, when The Hood Cup was retired by Harvey I. Sohner, no outings having been held in the years where the dates are missing, due to press of business, war, etc.:

<i>Date</i>	<i>Location</i>	<i>Winner</i>
1922	Seaview Golf Club	T. Edward Ross
1923	Do	Joseph M. Pugh
1925	Merion Cricket Club	Joseph M. Pugh
1928	Do	Frederick S. Metzler
1929	Do	Harvey I. Sohner
1930	Do	Roy H. Snyder, Jr.
1931	Do	T. Edward Ross
1932	Pennsylvania (RR) Golf Club	Harvey I. Sohner
1933	Valley Forge Golf Club	R. George Compton
1934	Tavistock Country Club	John Hood, Jr.
1935	Do	Joseph J. Pugh
1936	Do	Walter R. Seibert
1937	Llanerch Country Club	Harvey I. Sohner



The Drabenstadt Cup

The Hood Cup having been retired in 1937, George R. Drabenstadt in 1938 donated a very handsome trophy—The Drabenstadt Cup—to take its place in medal play competition. The initial winner was Frederick S. Metzler at St. Davids Golf Club.

Also in 1938, T. Edward Ross put in play, in memory of his brother, the Adam Averell Ross Golf Memorial Trophy, to be competed for annually at match play by the eight low-gross scorers in the tournament for the Drabenstadt Cup. This cup remains in the custody of three Trustees, and Mr. Ross presents a replica of the cup to the winner each year, whose name is also engraved on the trophy.

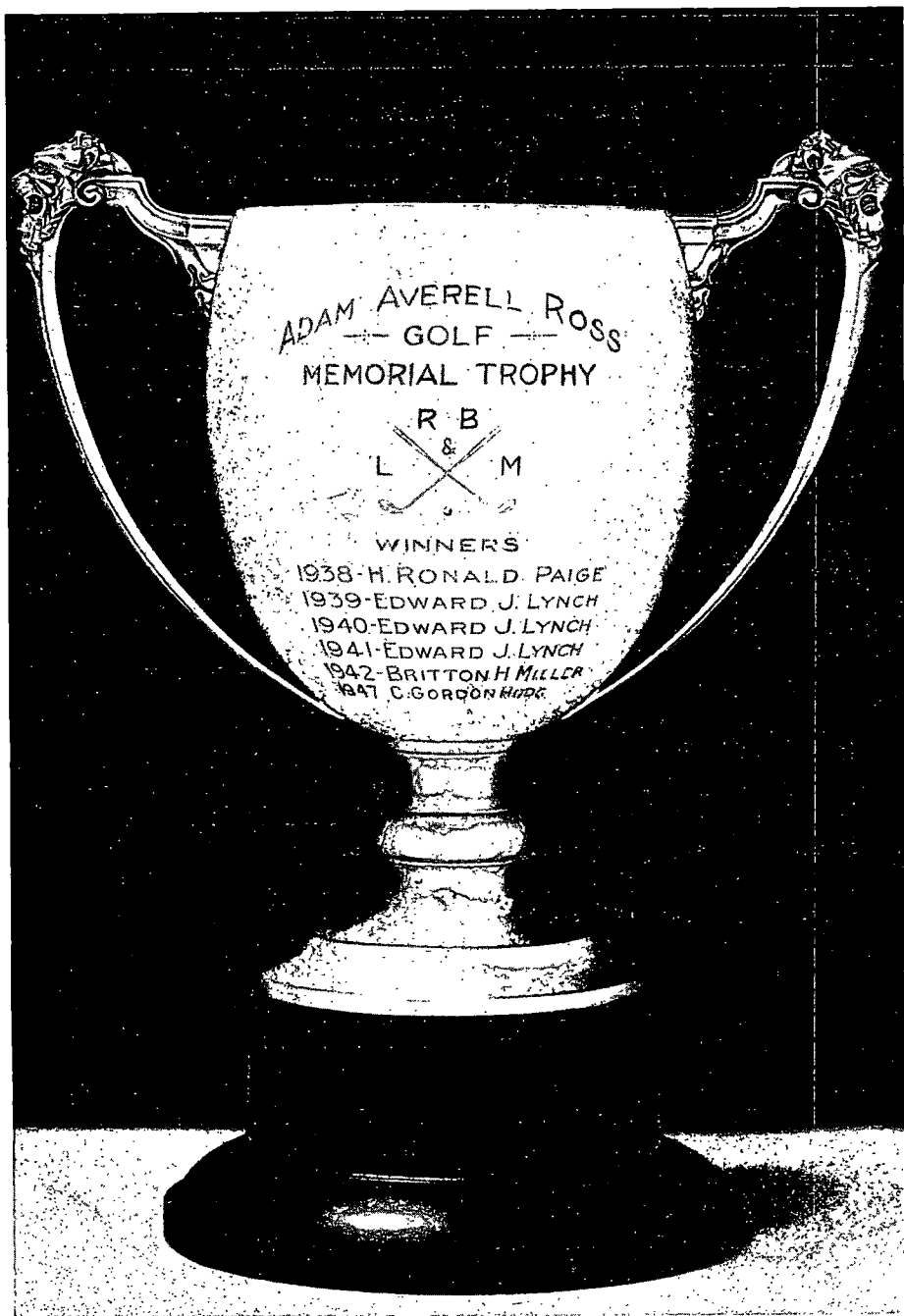
The original Trustees were the late Frederick S. Metzler, Harry H. Steinmeyer and H. Ronald Paige; Homer C. Hulse replaced Metzler; and now James E. Gelbert has accepted the place of Hulse, who died in 1945.

The winner of the Ross Trophy in 1938 was H. Ronald Paige, and the winners of the Drabenstadt Cup (1) and Ross Trophy (2) since that time are shown below:

1939	Merion Golf Club	(1) George A. Hewitt (2) Edward J. Lynch
1940	Aronimink Golf Club	(1) T. Edward Ross (2) Edward J. Lynch
1941	Cedarbrook Golf Club	(1) William L. Regan (2) Edward J. Lynch
1942	Tavistock Country Club	(1) E. Tyson Matlack, Jr. (2) Britton H. Miller
1943	Aronimink Golf Club	(1) Britton H. Miller (2) Not completed
1944	Merion Golf Club	(1) Britton H. Miller (2) Not completed
1947	Merion Golf Club	(1) John M. Thompson, Jr. (2) C. Gordon Hodge, Jr.
1948	Tavistock Country Club	(1) John H. Campbell (2) In progress

Of course, there have always been “outstanding performances,” and certain lucky individuals have been awarded well-deserved prizes, such as a pocket adding machine, tennis racquet, cotton practice balls, fishing rod, etc.

We have had many complaints from nongolfers about our not providing outing activities in which they can participate, so tune up your specialty and “wait until next year.”



Adam Averell Ross Golf Memorial Trophy

## THE ANNUAL SPORTS CARNIVAL

*(New York Office)*

In the autumn of 1934, the first New York office Firm Outing was held at the Crestmont Golf Club, West Orange, New Jersey. Prior Sinclair donated a silver cup to be awarded to the winner of the golf tournament.

The first outing was such a success that the next year two were held: the first one at Baltusrol Golf Club, Springfield, New Jersey, in June, 1935, and a second one at Pelham Country Club, Pelham, New York, in September, 1935. Invitations were extended not only to staff members of the New York office but to many partners of out-of-town offices. Many who played golf for the first time at Baltusrol were quite thrilled to be playing there for two reasons: (1) it is one of the oldest golf clubs in the country, and (2) Johnny Farrell, who in 1935 was one of the world's best, was the club "pro."

At the September, 1935, outing at Pelham, some of the staff members took advantage of other facilities that famous club offers; those who did not play golf wielded a tennis racquet and some of the older members pitched horseshoes.

In June, 1936, golf was played again at Baltusrol and tennis at the Short Hills Club nearby. About eighty-five were present.

The fall golf tournament was held at Pelham on September 15. The following analysis of sixty scores turned in is indicative of L. R. B. & M. golfing theory *sans* practice:

Low gross . . . . .	88
High gross . . . . .	167
Average gross . . . . .	119.7
Gross scores:	
100 or below . . . . .	7
101-125 . . . . .	31
126 and over . . . . .	22

Two outings were held in the year 1937. The golf tournament was played at Baltusrol and tennis at Canoebrook Country Club in June; and a second outing was held at the Westchester Country Club in Rye, New York, in September.

Nobody who was present at Baltusrol in 1935, 1936 and 1937 or at Westchester in the fall of 1937 can ever forget the wonderful times had by all. Since June, 1938, Pelham has been the home for these outings. To quote from the reporter on the June, 1938, event:

This year's outing was doubly enjoyable because it was again held at that fine course which so many of us have come to love.

At this affair eighty-seven golfers teed off in quest of the several prizes to be awarded for low net scores. While the club swingers were battling the golf course, a number of staff members played tennis, others enjoyed the new swimming pool and some just lounged under the trees.

From 1939 through 1946 outings were held annually in September at Pelham. In 1947, two affairs were held, viz.: in June and August. While the staff has always looked forward with enthusiasm to these annual sports carnivals, recordings of events are rather sketchy. From the impromptu outing in 1934, when twenty-four attended, there has been a gradual increase to the point where, in 1948, there were two hundred and sixty-five present, viz.: one hundred and thirty at the June outing and one hundred and thirty-five at the August affair.

At the 1948 affairs, the usual buffet luncheon was held on the terrace of the Pelham Country Club and dinner was served in the main dining room. After dinner, prizes were awarded for accomplishments ranging from low net score to "most balls in the water hole," and for skill in sports requiring less physical exertion than golf. The toastmaster, Mr. Sinclair, presented the prizes with his customary *savoir faire*.

During the busy winter months, partners and staff members alike look forward with anticipation to the annual sports carnival.

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Wobrand, Ross Bros. & Montgomery

— 1898 - 1948 —



Congratulations on this

**G**olden Anniversary

of the founding of the firm and on its growth and well deserved success during these first

**Fifty Years**

The firm has maintained successfully the highest accounting standards and over the years has won the continued esteem of its staff, the profession, and the clients whom it has served.

Sincere wishes for continued success

The Staff of  
The New York Office

New York Office Testimonial



## In Memoriam

Twelve members of the firm have died since 1918. The deaths of these men were a distinct loss to the firm, to the profession and to the clients whom they served; their passing is mourned but their memories are cherished by all with whom they were associated. They were "men of singular integrity and learning, yea, the elect o' the land."

In a preceding section of this book, a review of Mr. Adam Averell Ross' life appears. The lives of the other deceased partners are epitomized below.

### ALBRA WADLEIGH SHARP

Mr. Sharp became associated with the firm as a junior in 1907, and eleven years later on January 1, 1918, was admitted to partnership. Shortly thereafter, on May 14, 1918, his death cut short a promising career. He was the only partner to die during the first thirty years of the firm's existence.

### WALTER STILL GEE

An alumnus of Swarthmore College, where he was prominent in student activities and athletics, Mr. Gee entered our Philadelphia office as a junior. Eight years later in 1916 he was transferred to our New York office and on January 1, 1918, he became a partner. From the beginning he displayed those qualities which were responsible for his advancement and for the valuable contribution he made later to the firm. He had no small share in the growth of the New York office. He died at the early age of 47 on December 31, 1930.

### RICHARD FITZ-GERALD

In 1919 Richard Fitz-Gerald became a member of the New York staff and was made manager of the newly opened Detroit office the following year. In 1930 he was admitted to partnership and died on July 30, 1933. He was an outstanding accountant, possessing all the keen analytical powers so essential in accounting problems, and a man of profound scholarly attainments.

## WILLIAM PRESTON PETER

Entering public accounting in the year 1906 under the firm name of W. P. Peter and Company, he practiced in Dallas, Texas, until his death on May 21, 1934. In 1930 the practice of Peter & Moss, successor firm, was merged with Lybrand, Ross Bros. & Montgomery, at which time Mr. Peter became a resident partner of our firm. He was largely responsible for securing the passage of the first Texas C. P. A. Law in 1915 and was a leader in accounting activities in the State of Texas.

## ALBERT CHARLES GUY

The firm was shocked to learn of the tragic death of Mr. Guy on January 22, 1938. Under the pressure of the heavy seasonal work, he had been at the office until well after midnight, and while he was driving to his home his automobile collided with a street-car.

After a few years service in the Philadelphia office, he became manager of the newly opened Cincinnati office and was admitted to the firm in 1938. His ability as an accountant was exceptional and he won high esteem for his character and integrity of purpose.

## FREDERICK SAMUEL METZLER

A veteran of the first World War, in which he was gassed, Mr. Metzler became a partner in 1934. He was especially active in the affairs of the Pennsylvania Institute and other societies until his death on February 6, 1941. His qualities of loyalty and comradeship were outstanding.

## DONALD GRAHAM COLQUHOUN

"Cal's" human qualities outweighed all other attributes which he possessed. Well over six feet tall, his heart was in proportion to his height. He had no acquaintances—only friends—and he made them as naturally as he breathed. Without benefit of extensive formal education, his native ability was outstanding and as an accountant he was second to none. A member of the New York staff for over twenty years, he became manager of the Los Angeles office in 1943 and a year later he was admitted to partnership. He died suddenly on July 11, 1945.

## WALTER ADOLPH STAUB

Nothing could express more clearly the loss felt upon the death of Mr. Staub on November 4, 1945, than the following tribute from one of our clients:

While I know so many of your firm personally, I feel I must address you all collectively in transmitting my sincere sympathy in the sudden demise of Mr. Walter Staub with whom I have had close continued relations for these many years. It would be well nigh impossible for me to adequately express my deep regard for the high qualities of mind and heart with which his personality was endowed—he was indeed a rare character. He possessed in an unusual degree the most delightful faculties one could wish for—the faculty of subjecting a problem to a calm, dispassionate and highly intelligent analysis which gave to his judgment a quality that immediately won the admiration and support of his clients and his friends who detected and invariably appreciated the background of his broad experience and knowledge.

His endearing traits within a sterling character of the strictest personal integrity, provide a memory which will endear him and make that memory beloved by all who knew him.

An honor graduate of Girard College, Mr. Staub joined our Philadelphia staff as a junior in 1901 and ten years later became the second partner to be admitted to the firm since its founding. From 1914 until his death he was a resident partner in New York.

His professional, social and religious activities were so well known that no narrative is needed. In the words of the Bard of Avon: "His life was gentle; and the elements so mixed in him, that Nature might stand up and say to all the world, 'This was a man!'"

## THOMAS BEST GIBSON HENDERSON

At the age of twenty, Mr. Henderson left his native Scotland in 1906, shortly after passing his chartered accountant's examination. He joined our Chicago staff in 1912, was appointed manager in 1915 and in January, 1919—six years after becoming a member of the organization—he was admitted to partnership. In 1931, he came to the New York office as a resident partner and remained there until his death on December 31, 1945. His indefatigable energy, penetrating insight, wealth of experience, and constructive approach to problems made him an outstanding member of his profession. He was a Scotsman with all the finest attributes of his race.

## ADOLPH KARL FISCHER

Mr. Fischer was severely wounded at St. Mihiel in World War I, but notwithstanding his age and disabilities endeavored to enter the flying service in World War II. Disappointed in this, he engaged in service in the Civil Air Patrol and was a civilian instructor of Army and Navy personnel in the operation of airplanes and gliders.

Becoming a member of the Philadelphia staff in 1908, he was admitted to partnership in 1930. He held important offices in both the Pennsylvania Institute and the American Institute until his death on June 29, 1946, which resulted from a crash of his private airplane.

## HOMER NEWTON SWEET

A partner for over twenty-nine years, Mr. Sweet's work and activities reached far beyond the Boston office of our firm. In addition to his professional accomplishments, he was a man of wide intellectual interests. Brown University, his alma mater, honored him by electing him a Life Trustee in 1942. His outstanding ability, industry and devotion to the firm's interest endeared him to his associates, and helped to bring the Boston office to the position it now occupies in the accounting profession. He died suddenly on May 18, 1948.

# The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

## PARTNERS

WILLIAM M. LYBRAND      T. EDWARD ROSS      ROBERT H. MONTGOMERY

	<i>Year Admitted</i>			<i>Year Admitted</i>	
JOSEPH M. PUGH . . . . .	1904	Philadelphia	CARL H. ZIFF . . . . .	1941	Philadelphia
H. HILTON DUMBRILLE . . . . .	1918	New York	FRED M. BRESLIN . . . . .	1943	San Francisco
JOHN HOOD, JR. . . . .	1918	Philadelphia	HILTON R. CAMPBELL . . . . .	1943	New York
GEORGE R. KEAST . . . . .	1922	San Francisco	EDWARD G. CARSON . . . . .	1943	New York
CARL T. KELLER . . . . .	1928	Boston	HENRY C. HAWES . . . . .	1943	Chicago
PRIOR SINCLAIR . . . . .	1928	New York	GEORGE A. HEWITT . . . . .	1943	Philadelphia
HERMON F. BELL . . . . .	1929	New York	GEORGE W. MCIVER, JR. . . . .	1943	New York
GEORGE R. DRABENSTADT . . . . .	1929	Philadelphia	WALTER R. STAUB . . . . .	1943	New York
WALTER B. GIBSON . . . . .	1929	Los Angeles	PAUL F. HALLORAN . . . . .	1944	Louisville
CLARENCE R. HAAS . . . . .	1929	Philadelphia	JOHN McCULLOUGH . . . . .	1944	Detroit
NORMAN J. LENHART . . . . .	1929	New York	MARK E. RICHARDSON . . . . .	1944	New York
WILLIAM F. MARSH . . . . .	1929	Pittsburgh	PRICE G. RIGHTER . . . . .	1944	Detroit
HOMER L. MILLER . . . . .	1929	Chicago	ROBERT S. WARNER . . . . .	1944	St. Louis
DONALD P. PERRY . . . . .	1929	Boston	PHILIP BARDES . . . . .	1947	New York
DONALD M. RUSSELL . . . . .	1929	Detroit	MYRON J. BOEDEKER . . . . .	1947	Los Angeles
WALTER L. SCHAFFER . . . . .	1929	New York	HARRY N. CASE . . . . .	1947	New York
CONRAD B. TAYLOR . . . . .	1929	New York	EDWIN P. NOELL . . . . .	1947	Detroit
J. F. STUART ARTHUR . . . . .	1930	Dallas	EDMUND A. STAUB . . . . .	1947	Baltimore
ALBERT G. MOSS . . . . .	1930	Dallas	MARK C. WALKER . . . . .	1947	Boston
FRED C. DENNIS . . . . .	1940	Cincinnati	J. EDWARD BURKE . . . . .	1948	New York
ALVIN R. JENNINGS . . . . .	1940	New York	CLAUDE R. GILES . . . . .	1948	San Francisco
CHRISTOPHER H. KNOLL . . . . .	1940	New York	JAMES J. MAHON, JR. . . . .	1948	Philadelphia
LOUIS D. KORK . . . . .	1940	Cleveland	GLENN O. PETTY . . . . .	1948	Philadelphia
JOEL D. HARVEY . . . . .	1941	Boston	JOHN C. POTTER . . . . .	1948	New York
ALBERT E. HUNTER . . . . .	1941	Boston	GUSTAVE F. SCHWEITZER . . . . .	1948	Philadelphia
HARRY H. STEINMEYER . . . . .	1941	Philadelphia			

## EUROPE

VICTOR L. NORRIS . . . . . 1931 . . . . . London      LEONARD C. DAVID . . . . . 1931 . . . . . Paris

## L. R. B. & M. Journal

The first edition of the L. R. B. & M. JOURNAL was published in January, 1920. Its purpose is well expressed by the masthead on the previous page:

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

The JOURNAL has been published continuously for over twenty-eight years and articles appearing therein have been instructive and interesting. It serves as a narrative of events of special interest and comprises a valuable part of the archives of the firm.

Not only has the JOURNAL been a medium for the dissemination of helpful and thought-provoking articles to the staff, but requests from public libraries, universities and other outside sources are indicative of the wide recognition of its worth.

Special editions to mark anniversaries have been issued from time to time, and upon the deaths of members of the firm, memorial numbers have been published.

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The qualities possessed by the founders and later partners, their high professional ideals, and their strong spirit of service would have been of little avail without the staff's cooperation and devotion to duty. Certain it is that a most important factor of the firm's fifty years of effective service has been the efficiency and loyalty of the staff. Teamwork has always been the basis of the organization's success and growth; therein lies its hope for the future.

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On January 1, 1898, the firm consisted of four partners, one staff member and a clerical assistant; today there are 56 partners and 1,192 staff members and administrative employees. Of the latter, 110 have been associated with the firm from 10 to 15 years, 89 from 15 to 20 years, 77 from 20 to 25 years and 61 for over a quarter century. A large number of the staff are certified public accountants and many younger members are preparing to take their examinations.

It is with a feeling of deep satisfaction that we can number among our present day clients many of long standing, some of whom we have served for over forty years. We desire to acknowledge our sincere appreciation for these long and happy associations.

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The firm is indebted to Harry O. Leete who, ably assisted by Carl J. Simon, performed so capably the painstaking work of writing and gathering together the material for this Fiftieth Anniversary Number of the L. R. B. & M. JOURNAL and also to the other members of the staff who contributed. We also desire to express appreciation to our partner, George W. McIver, Jr., for his aid in the preliminary planning of this Fiftieth Anniversary Edition.

## A Few Unusual Engagements

Not all of the firm's engagements have been limited to the examination of and reporting upon financial statements. Among other engagements, we have been called upon to audit the accounts of an historical exhibition; we have rendered services to the treasurers of both major national political parties and we have collated data for the Tennessee Valley Authority. These and a few other engagements of an unusual character are briefly described below.

### CANAL BOARD OF THE STATE OF NEW YORK

Thirty years ago the firm was engaged by the Canal Board of the State of New York to determine cost and expense of sixteen Barge Canal and ten Terminal contracts, from April 7, 1917, to dates of contract cancellations, pursuant to provisions of Chapter 585, Laws of 1918, commonly known as the Walters Act. It was passed for the purpose of facilitating the completion of public works contracts by granting, to state and municipal contractors, relief from the abnormal conditions resulting from the war. In substance, the Act provided that if contract cost and expense from and after April 7, 1917, exceeded contract price for the same period, the contractor could accept cost and expense provided he waived and released any claims, whether legal or equitable, arising after April 6, 1917, and agreed to complete the work upon the basis of cost.

At the time, Hon. Frank M. Williams was State Engineer and Surveyor (which was then an elective office), and our reports were rendered to him. Mr. Lybrand personally supervised the entire engagement which lasted from September, 1918, to May, 1919.

The first problem was to interpret the meaning of cost and expense. This subject was discussed by Mr. Lybrand with Mr. Williams (at the latter's office in the Telephone Building on the brow of the hill diagonally across from the Capitol at Albany) and with his chief assistant, Mr. Royal G. Finch (who became Deputy State Engineer in 1919 and later, 1925-1926, held the elective position of State Engineer and Surveyor). Some of the questions involved were referred for decision to the Attorney General. He ruled, for example, that interest was to be allowed at the rate of 6 per cent per annum on working capital used in the performance of the contract; also that "extra work" did not come within the provisions of the Act.

Engineers representing the State determined the valuations to be placed upon the equipment used in the performance of the work



and the periods of such use, by individual pieces, and the rate to be used to cover depreciation and accrued repairs.

A provision of the Walters Act was:

Upon the completion of such investigation, the engineer or certified public accountant, or other authority who shall have made the same, shall certify in writing the actual and necessary cost and expense of the work under any such contract from April sixth, nineteen hundred and seventeen, to the date of cancellation and annulment, and such certificate shall be and is hereby made final and conclusive, and shall not be subject to review.

In view of the finality of determination under the stipulations signed, engineers and accountants alike had a lively sense of their responsibility to determine actual "cost and expense" but "not to include or allow to the contractor any profit whatsoever."

Our field work was in the main carried on by three groups of staff members, with headquarters at Rochester, Albany, and New York City. Of those who actively participated in the 1918-1919 work, the only persons with the firm at present are Messrs. Lybrand, Bell and Babeuf. Donald Colquhoun, of whose companionship we were so recently deprived, had, as his first engagement with us, participation in the work at Albany.

The aggregate costs subsequent to April 6, 1917 were \$4,586,332, and contract prices (exclusive of \$2,272,915 for work up to and including April 6, 1917) were \$2,947,852, leaving an excess of cost and expense of \$1,638,480.

The sizes of the contracts, as well as amounts of loss, varied greatly. Size was no criterion of difficulty in cost determination. Some of the smaller contractors did not have formal double entry records; in fact one contractor brought in a valise full of loose papers, invoices, pay rolls, cancelled checks (many of them to the order of cash), and miscellaneous memoranda, as the only data he could supply.

In looking over the firm's reports, one cannot fail to be impressed with the care and completeness with which the contracts are reported upon and especially the factual nature of the examinations. Throughout, the elements of cost and expense were evaluated in the light of independent factual verification, by reference to records of the State's Field Engineers and by comparisons with material and other component elements of work done.

The reports begin with a summary that in the simpler cases runs about as follows:

Cost of labor, materials, supplies and expenses, "determined by us as the result of our examination".....	—
Depreciation (as determined by State Engineer).....	—
Interest (in accordance with opinion of the Attorney General).....	—
	<hr/>
Total cost and expense.....	—
Inventory at cancellation date, to become the property of the State of New York.....	—
	<hr/>
	—
Payments made by State Comptroller.....	—
	<hr/>
Balance.....	—
	<hr/> <hr/>
The above balance consists of:	
Retained percentages.....	—
Cost in excess of contract prices.....	—
Inventory (at contract close).....	—
	<hr/>
	—
	<hr/> <hr/>

The reports show schedules of labor, materials, supplies, and expenses; in the case of materials, component elements were shown in quantities, weights, or measures, as well as in dollars. Discrepancies in materials and labor, as compared with Field Engineers' reports, were investigated, with revisions of cost figures where deemed appropriate.

A few brief extracts from reports will illustrate the factual, down-to-earth studies that were made.

The excess of approximately 200 feet in the engineer's estimate of sawed lumber is due to that quantity of second hand form lumber used as sawed lumber.

The contractor's quantity of paving brick purchased is in excess of the estimate which is probably due to a load which was sold, the quantity of which might vary from 300 to 500 bricks, depending on the size of the load. The amount received from the brick sold has been deducted from the costs.

For a time two pairs of mules were used. In September, 1917, one pair fell from a bridge. One of the animals was so severely injured that it had to be shot, while the other was afterwards sold at a nominal price. \$500 was received from the Delaware & Hudson Company so that no charge is made to this contract on account of the accident.

The difference in waterproofing used is due to a quantity being used for the construction of shacks, etc.

This contract received very little credit for cement bags returned, and it was therefore necessary to adjust the account. Cost of cement as shown in our statement is after deduction of \$279.40 for bags not accounted for in excess of an allowable loss of five per cent.

Many of the reports contain a paragraph captioned, "Explanation of Loss." The accountant in charge in each contract was instructed at all times to be mindful of the question—how and why did loss occur, and why in the amount shown?

A glance at the final reports shows the interesting certificates and affidavits which were included. It was customary for us to type seven copies, six of which were sent to Mr. Williams at Albany. Thereafter, in due course, he would return to us one of the six copies with all signed affidavits and statements attached, which we would hold in addition to our office copy.

Taking a typical signed copy we find that it contains the following in the order named:

Signed receipt, and release by the contractor, in consideration of the action taken by the Canal Board pursuant to provisions of Chapter 585, Laws of 1918.

Signature of Attorney General (or Deputy) on the above mentioned receipt and release, indicating that he "Approved as to form."

Notary's acknowledgment.

County Clerk's certificate of authenticity (to be attached).

Affidavit of William M. Lybrand (duly acknowledged before a notary) stating that he is a Certified Public Accountant of the State of New York, and a member of the firm; that the examination of the accounts of the Contract . . . , was carried on under his supervision; and that the attached report showing a balance, — , due to the contractor, is true and correct, to the best of his knowledge and belief.

The accountants' report proper (signed in all cases Lybrand, Ross Bros. & Montgomery, by William M. Lybrand), including schedules as follows:

Summary of Labor, Materials, Supplies and Expenses, classified, and showing in separate columns contractor's payments applicable to period, unpaid invoices and accrued labor, and totals (showing quantities of materials as well as dollar amounts).

Statement of Depreciation, including description of equipment in detail, valuations and months in use; with certificate as to periods of employment, signed by a State Assistant Engineer.

Schedule of Amounts paid to the Contractor by the State of New York, — certified by Comptroller (or Deputy).

Inventory, at contract cancellation date, — certified by a State Assistant Engineer.

Schedule of Unpaid Invoices, at date of contract cancellation.

Certificate of Fred J. Wagner, an Engineer retained by the State in connection with these examinations, and with whom we worked in close cooperation throughout.

His certificate recited that he had examined our report; that during the progress of the work of the examination he was in consultation with the auditors from time to time and became familiar with the details; that to the best of his knowledge and belief the report correctly sets forth the results of the examination, that he believes \$..... is due ....., Contractors, under the provisions of Chapter 585, Laws of 1918.

We recall with pleasure the efficient manner and high business plane on which the State administration, and more particularly the Canal Board of the State of New York, and the State Engineer as active administrator, carried out these contract settlements that at first glance seemed so difficult. The firm's reports afford clear evidence that thirty years ago we were doing a grade of work high by any standards, even by those of today.

#### UNITED STATES SHIPPING BOARD

In June, 1921, President Harding appointed Albert D. Lasker to the Chairmanship of the Shipping Board. The Board and its subsidiary, the Emergency Fleet Corporation, had spent several billion dollars during World War I and had no reliable knowledge of where or how it had been spent or what assets remained. The Board had no inventory of the property it owned, and the Comptroller General had disapproved vouchers aggregating \$700,000,000. In the words of Chairman Lasker, it was the "worst accounting mess in history."

Our firm was engaged to arrange for the taking of a physical inventory, the recording and tabulation of the appraisals thereof, and to prepare a financial statement of the realizable assets and liabilities as of June 30, 1921. The engagement was one of the most difficult ever undertaken. Colonel Montgomery and the late Homer N. Sweet were in direct charge and they devoted approximately five months of intensive efforts to the work.

Our first task was to have compiled an accurate account of every item of property owned by the Shipping Board. *The New York*

*Tribune*, under date of July 1, 1921, commented on these activities as follows:

The task . . . is being directed by Robert H. Montgomery, a New York accountant, who today organized a special staff of assistants to go over all the records of the shipping agency. Directions have been issued by Mr. Montgomery to all divisions of the board on the Atlantic, Pacific and Gulf seaboards to furnish to Washington headquarters a complete record of all property under their control.

Procedures were established under which the first physical inventory of the Shipping Board was taken, the planning for which was so thorough that it was quickly completed. The following comments of the *Nautical Gazette* under date of September 24, 1921, are of interest:

The Shipping Board's inventory of surplus materials has been completed by Col. R. H. Montgomery. The complete report covers a large table one foot deep, and contains tens of thousands of pages. Every item from a nut to an engine is listed. The original cost price of these materials is placed at \$220,000,000 and the present market value is appraised at twenty per cent of that sum, or \$44,000,000.

The United States Shipping Board was the owner of cargo carriers and auxiliary ships constituting a fleet of over eleven million tons whose operations took them to ports all over the world. Offices were maintained in many ports on different continents and the accounting for ship operations was widely scattered, inadequate and far from current. Through the Construction Division of the Emergency Fleet Corporation this immense fleet had been built in the shipyards of our country, and settlements for their construction costs and losses due to cancellations at the end of the war had not been arrived at and had to be determined.

The firm also undertook the preparation of a statement of assets and liabilities. Many months were spent by our staff in the arduous task of completing the accounting records, assisting in the reaching of settlements and gathering from these widely scattered locations the financial information necessary for the preparation of the statements of assets and liabilities.

In addition to the work already described, we outlined new accounting methods and procedures which, for the first time in the history of the Emergency Fleet Corporation, made possible the preparation of monthly operating statements with complete comparative analyses of operating and administrative costs.

At the conclusion of our engagement we received from Chairman Lasker a letter of commendation which appears on the following page.



UNITED STATES SHIPPING BOARD  
WASHINGTON

January 4, 1922.

OFFICE OF THE CHAIRMAN

Messrs. Lybrand, Ross Bros. & Montgomery,  
55 Liberty Street,  
New York City.

Dear Sirs:

Soon after I assumed the chairmanship of the Shipping Board in June, 1921, I characterized the situation confronting the new Board as the worst accounting mess in history. Realizing that expert guidance was needed to bring order out of chaos, I called upon your firm for assistance and you courageously agreed to help. I say "courageously", because the difficulties of the task were so great that no firm inclined to weigh the risks to professional reputation would have dared to face them. Now that you have brought the work to a most satisfactory conclusion, despite the magnitude and complexities of your undertaking, I commend you for having rendered what I esteem to be a great public service.

You were asked to arrange for the taking and appraising of a physical inventory and that has been done -- it is the first complete inventory the Shipping Board has had. You were asked to prepare a financial statement of the realizable assets and liabilities of the Shipping Board and Fleet Corporation and its subsidiaries as of July 1, 1921, and that has been done -- it is the first statement of its kind that has been furnished to the Board. You were asked to improve the methods of voyage accounting and auditing and you have introduced many changes that simplify procedure and fortify our control over the accounts and funds of managing agents. You were asked to help us to reduce overhead expenses and you directly assisted in effecting savings aggregating \$2,500,000. per annum.

These attainments and many others which I do not mention have been of incalculable value to the Shipping Board and you have accomplished them within a remarkably brief period and at moderate cost. This opinion of your services is not held by me alone; it is shared by all my associates. On behalf of the Board I thank you for having devoted yourselves so faithfully to the solution of our problems.

Yours very truly,

*W. D. Lusk*  
Chairman.

## THE SESQUICENTENNIAL EXHIBITION ASSOCIATION

Our Philadelphia office devised and installed a system of accounts for recording transactions of the Association which held an exhibition to celebrate the 150th Anniversary of the signing of the Declaration of Independence. Following the completion of that work, audits of the accounts were made covering not only the pre-exposition period from November 1, 1920, to May 31, 1926, and the exposition period from June 1, 1926, to December 31, 1926, but also the post-exposition period from January 1 to April 23, 1927, the date on which receivers were appointed to take charge of settling the affairs of the Association.

The period of the exposition naturally was the most important from the standpoint of our audit work and during that period we conducted continuous audits of operating revenues and expenses.

Its operating revenues were principally derived from admissions, concessions, exhibitions and special events. We had representatives on the exposition grounds throughout the exposition period for the purpose of auditing the revenues. Frequent test checks of turnstile and ticket readings were made in connection with the verification of the admissions revenue. Examination of all concession and exhibition contracts, the inspection of the spaces used by exhibitors and concessionaires, and a test check of the readings of cash registers used by concessionaires were a part of our verification of concession and exhibition revenues.

Investigations were also made of the accounting for various special events, one of the most important of which was the fight for the World's Heavyweight Boxing Championship between Jack Dempsey and Gene Tunney at the Municipal Stadium on September 23, 1926. We had our men present at the turnstiles on the night of the fight, and in conjunction with representatives of Tex Rickard, the fight promoter, and of the Government, we maintained control over the tickets until they were sorted and counted. The ticket count was then matched against the income indicated by the record of tickets printed as furnished by the printer.

A continuous audit of expenditures was conducted during the exposition period. These included tests of the payrolls and the supervision of the paying off, from time to time, of various classes of employees ranging from maintenance laborers and mechanics to the actors, actresses and chorus girls participating in the pageant.

## BANKRUPTCY CASES

Early in 1929 a Federal Court headed by Judge John C. Knox announced that thereafter all bankruptcy cases within the jurisdiction of the court would be handled by Irving Trust Company, acting as receiver and trustee. Our firm was chosen as the accountants to make preliminary examinations of the bankrupt's records and to report its findings to Irving Trust Company. To handle this work, which continued from about June, 1929, to the spring of 1933, a special staff was organized with an office on the premises of the Trust Company. All work was done there and an entirely separate set of records, such as pay rolls, time reports, cost cards, billing records, etc., was maintained for this organization. It was, in effect, a separate branch of our firm during the period of its existence.

THE EMERGENCY UNEMPLOYMENT RELIEF COMMITTEE IN  
NEW YORK CITY

During the autumn of 1930, the Emergency Employment Committee, generally known as the "Prosser" Committee for its chairman, Mr. Seward Prosser, raised approximately \$8,000,000 for relief among the unemployed of New York City. By the summer of 1931 the funds of the "Prosser" Committee had been exhausted.

As a result of widespread unemployment, distress among the people of New York City was increasing; in addition, many men and women who had been able to live on savings during the previous winter and had not appealed to charitable organizations for assistance, had exhausted their resources.

To aid in meeting these conditions a number of prominent citizens, representing leading commercial, financial, civic and social interests, met and formed the Emergency Unemployment Relief Committee.

Mr. Harvey D. Gibson, President of the Manufacturers Trust Company, consented to serve as chairman of the Committee. Mr. Bayard F. Pope, President of Stone & Webster and Blodget, Inc., became executive vice chairman. Mr. Guy Emerson, Vice President of the Bankers Trust Company, was secretary and Mr. Thomas Cochran, a partner of J. P. Morgan and Company, was appointed treasurer of the Committee. Mr. Harold W. Thorne, of the New York Trust Company, functioned as assistant treasurer.

The Committee secured office space at 29 Broadway and at the peak of the campaign occupied more than three complete floors, which were given to the committee rent free.



Shortly after the offices were established, Lybrand, Ross Bros. & Montgomery was asked to donate the services of a man to act as Controller. A member of the New York office staff was given the assignment, and he devoted his time continuously to the work of the Committee from September 14, 1931, to February 8, 1932.

We were concerned with accounting for subscriptions and cash received, and with the expenses in connection with the fund raising. We were not required to establish accounting procedures for the disbursement of the funds collected to the individuals receiving assistance. It was planned to distribute the funds in relatively large amounts, monthly, to a number of established welfare organizations, who were accountable for the funds turned over to them.

The organization and operation of the Accounting Division devolved upon the controller who reported to the assistant treasurer.

On October 1, we completed a detailed report of the proposed accounting procedure, and submitted it to a group of executives, bankers and accountants for their review and comment. The Accounting Division was operated substantially in accordance with this plan throughout the campaign.

Active solicitation commenced on October 19, 1931, and was to end the day before Thanksgiving. The drive was later extended to December 9, 1931, and by then the goal of \$18,000,000 in cash and pledges was exceeded.

The Accounting Division consisted of the cashier's, general bookkeeping, expense bookkeeping, auditing, machine tabulating and statistical departments and mass canvass. These departments were able to operate most expeditiously through the use of modern bookkeeping and tabulating equipment which was furnished to the Committee without charge.

To keep officials of the Committee currently apprised of the results of the campaign, the statistical department analyzed subscriptions by classification and industries and prepared daily reports thereon, both in tabulated and graphic form. This department operated principally at night, preparing reports of activities for the same day. The full story of the previous day's accomplishments was completed and placed on the desks of the heads of the producing departments by nine o'clock the following morning.

At the peak of the campaign, during the week of December 9, the Accounting Division comprised 105 employees consisting of 11 volunteers and 94 salaried people.

The total expense of operating the Accounting Division up to December 31, 1931, amounted to less than two-tenths of one per cent of the \$18,000,000 subscribed. Of these expenses over eighty per cent was paid for salaries of clerical staff recruited from the unemployed. The Accounting Division continued to operate after the above date with a greatly reduced staff for the purpose of collecting balances on instalment pledges.

#### REPUBLICAN AND DEMOCRATIC NATIONAL COMMITTEES

Our New York office has participated actively, in a professional capacity, in all except one of the presidential campaigns beginning with the Wilson-Hughes contest of 1916. Our participation, it might be added, has not been restricted to one side of the political fence; in the 1924 campaign, for example, our services covered the activities of both parties.

The treasurer's division, with which we have been primarily concerned, is right in the middle of the battleground. Reduced to a very bare skeleton, the treasurer's province covers budgeting, raising money, spending money and rendering reports. The meat and clothing that cover the bare skeleton are staggering. All of the work is concentrated within a very few months and, except for a few key individuals who are carried over from the permanent organization, the personnel is new and lacks the full degree of integration that comes from long association with each other. Hours mean nothing as the finance and accounting personnel struggle to keep up with the accelerating pace of contributions and expenditures which reach a peak just before Election Day. Our representatives, like everyone else in the treasurer's organization, virtually live at headquarters during most of the last month of the campaign.

An auditor's duties in a campaign do not include the raising or spending of money; he is only concerned with the accounting therefor. Our duties have been to supervise and coordinate the accounting work and records, to ascertain that funds received are acceptable and are properly deposited and recorded, to audit disbursements, to prepare internal financial statements, to supervise the preparation of Congressional reports and to render advice to the treasurer in matters pertaining to accounting.

Such participation in a presidential campaign calls for a lot of hard work and long hours on the auditor's part, but its unusual nature provides fertile grounds for later reminiscences.

## BANK HOLIDAY—1933

For many years our firm has made examinations of banking institutions. Most of these followed the usual pattern but occasionally engagements were encountered in which the district attorney, as well as the federal or state banking departments, was involved.

Of particular interest were the engagements resulting from the bank holiday of 1933. Shortly after the banks closed in 1933, representatives of our firm were called to Washington to confer with officials of the Federal Banking Department and to discuss certain investigations which that department desired us to make of several banks and trust companies located in various parts of the country. We were engaged not only to investigate and report to the Banking Department but also to render all possible assistance to the conservators.

Because of the unprecedented magnitude of the engagement and the exigency of the situation, our firm was obliged to utilize the services of all available members of its staff. For quite some period of time, overtime work of the staff equalled or exceeded the normal working day.

After the work had progressed, it was found that several of the banking institutions were destined for a "permanent" holiday. This situation changed the character of our work from an investigation to somewhat of a detailed audit, and ultimately we became assistants to the liquidator.

During the liquidation proceedings our assistance to the conservators, liquidators and their legal aids comprised, among other things, the difficult task of locating the details of questionable transactions, proving the accuracy and validity of recorded transactions, always with a weather eye for clues which might lead to important transactions not recorded in the accounts, etc. Part of the scope of our work was to cover every avenue of possible concealment of assets and understatement of liabilities, substitutions of assets and, in collaboration with counsel, to detect violations of the laws relating to banking, stock exchanges, estates and trusts, etc. Claims presented by creditors and others had to be carefully investigated and proved, and data gathered and correlated so that counsel could prepare his cases, all of which had to be done in the shortest possible time. Our staff saw the normal working day stretch into fourteen or more hours and frequently we worked from twenty-four to thirty-six hours without sleep or refreshment save coffee and sandwiches, which were brought in from the corner store.

Some of the smaller engagements terminated in a few weeks, but the work for the larger banks and trust companies carried on for several years. This was particularly true in dissolution proceedings for in several cases we were called upon to take an active part in the realization of assets, liquidation of liabilities and settlement of claims.

#### TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority, a Government corporation, was established in 1933 by Act of Congress of the United States for the principal purposes of developing the Tennessee River System for navigation, flood control and power; for the production, testing and demonstration of fertilizers; for the social and economic development of the Tennessee Valley region; and for national defense. Most every one has some knowledge and opinion regarding the TVA in view of the vast amount of material that has appeared in the public press and other periodicals.

Our first contact with the TVA was in 1938 when we were engaged by both the Authority and The Commonwealth & Southern Corporation, the parent of Tennessee Electric Power Company, to assemble factual data regarding the Tennessee Company. These data were to be used as a basis of negotiation between the late Wendell L. Willkie, who was at the time president of The Commonwealth & Southern Corporation, and the Authority for the sale of the physical assets of the Tennessee Company to TVA and various municipalities in the Tennessee Valley. Our report was submitted to both the Authority and Commonwealth & Southern, and in 1939 the negotiations were completed whereby TVA acquired all the generating and transmission facilities, while the municipalities took over the distribution properties.

After we had completed our work on the Tennessee Electric Power Company, we were requested by TVA to examine and report upon its financial statements for the period from June 16, 1933, the date TVA was created, through June 30, 1938. At the time of our examination, TVA was very much in the news. A Congressional Committee was investigating and holding hearings on the activities of the TVA, the Supreme Court was passing on the legality of the TVA Act, and the question of the TVA as a so-called "yardstick" for private utilities was being discussed publicly. As the accounts of TVA had never been subjected to a complete audit by independent public accountants and its accounting policies were in the process of being established, our initial examination was a rather

difficult one. In order to cover all of the numerous activities of the TVA for the five year period, many of our staff members, including representatives from our New York, Boston, Chicago and Philadelphia offices, had to spend several months to complete the examination. The accounting records of TVA were kept in a number of locations where activities of the Authority were being carried on. In addition to the head office which was maintained at Knoxville, Tennessee, our representatives visited all of the other accounting centers, including those located at Chattanooga, Tennessee, for the power division, at Muscle Shoals, Alabama, for the chemical division, and at the various dam sites for the construction records for the respective dams. As part of our examination, we assisted the accounting staff of the TVA in rearranging and regrouping the accounts and in the preparation of financial statements which, as to form, have been followed to this date with occasional minor revisions.

We continued to serve the TVA in the capacity of independent public accountants from 1938 through June 30, 1944. During this period the activities of the Authority increased substantially, particularly in the power division where the generating capacity was being built up to meet increased demands, especially by the aluminum industry. Our services were discontinued as auditors for the TVA by the Government Control Act of 1945 which provided that Government corporations, unless otherwise expressly provided by law, were no longer allowed to use their funds to pay the cost of private audits of their accounts. Since that time, however, we have continued to serve the TVA as consultants on accounting matters.

#### WORLD TRADE CORPORATION

World Trade Corporation was created by an act of the Legislature of the State of New York in 1946, as a public authority of the State, to consider the establishment of a world trade center and to develop and promote world trade in New York. The initial studies of the Corporation indicated that the first step should be to modernize and improve the docks and piers in New York City which had seriously deteriorated in recent years. In May of 1947, World Trade Corporation submitted to the Mayor of the City of New York a plan and program whereby the corporation would lease certain City-owned docks and piers and provide financial means for the rehabilitation of port facilities in New York City. The Board of Estimate of the City of New York determined that this plan was sufficiently meritorious for the corporation to proceed with engineering, account-

ing and other surveys. Among the major points which the Board requested that the surveys consider were:

- The verification of the financial data on which the program was based; and
- The full protection of the City's investment, interest and amortization requirements on City debt and any other interests of the City and its properties.

The firm was engaged to carry out the accounting surveys which were required. This was an unusual engagement because the financial statements were not conventional statements designed to indicate transactions of definitely known amounts, but rather were presented only for illustrative purposes as an aid to understanding the general effects of the various steps contemplated under the plan. Since the plan was a progressive one, the financial statements did not reflect the position of the corporation at any particular time or the results of operations for any particular year; rather they indicated what the balance sheet and income statement of the corporation might look like in a typical future year.

It was decided that we could best carry out our engagement by determining whether the estimated earnings from the City-owned waterfront facilities were supported by past earnings of such facilities, and also by satisfying ourselves that the assumed effects of the contemplated transactions were appropriately applied and presented in the financial statements.

Necessarily a considerable amount of time had to be devoted to acquainting ourselves with the accounting records and procedures with respect to the operation of City-owned piers. We had to ascertain what sort of information was regularly compiled, how it was controlled, and where it originated. Moreover, we investigated what, if any, supplemental data were available which might be of assistance in weighing the recorded results and in locating the existence of any abnormalities which needed to be taken into account in the course of our survey.

We reviewed the details of gross revenues from the dock and slip operations for the ten years ended December 31, 1946, and tested revenues for the year 1946 by examination of leases and other underlying records. Because of changes in the method of billing during the ten-year period, it was necessary to make substantial reallocations of income between years. We also reviewed expenses of the Department of Marine and Aviation for the ten years and made

extensive tests of expenses for the year 1946 applicable to dock and slip operations.

We spent considerable time in compiling accounting data from the City records, particularly those relating to interest and amortization requirements on outstanding dock bonds. We also collaborated with the engineers, lawyers and employees of the corporation in connection with the program as a whole.

Our report set forth in detail the extent of our examination and, together with the reports of the engineers and attorneys, was submitted to the Mayor of the City of New York in October, 1947. Two other plans pertaining to the rehabilitation of the docks and piers were submitted later, one by The Port of New York Authority and the other by the Department of Marine and Aviation. Members of our firm were present at public hearings of the Board of Estimate to consider the relative merits of these plans.

## Published Articles of Lasting Interest

Certain articles written by our partners and staff members stand out for their lasting interest. Not only were they noteworthy when written, but even today they remain invaluable and stimulating. For this reason, they are reprinted in the following pages.

One of these articles, "Professional Standards," was written by Colonel Montgomery in 1905 and served as a forerunner of present-day rules of professional conduct. Moreover, its prophetic character is clearly revealed in the light of events which have occurred throughout the years.

Gilbert R. Byrne's prize winning essay, "To What Extent Can the Practice of Accounting be Reduced to Rules and Standards?" was written in 1937. It is a clear exposition of the nature of accounting principles and the resulting accounting rules, practices and conventions as applied in the preparation and presentation of financial statements.

As an illustration of the tremendous difference between the early days and more modern times, Mr. T. Edward Ross, in 1941, wrote an article for the L. R. B. & M. JOURNAL, entitled "Ripley V. Winkle," which was in a more humorous vein.

"Professional Accounting Practice Today and Tomorrow," an article written in 1944 by Donald P. Perry, portrays some of the unusual problems faced by the accounting profession during World War II and presents a forecast of some of the anticipated post-war issues.

A succinct treatise on the growth of the profession and the heritage handed down by accounting pioneers was read by Prior Sinclair at the 59th Annual Meeting of the American Institute of Accountants in 1946. This address was entitled "The Certified Public Accountant on the Threshold of the Second Half Century."



# Professional Standards\*

*A Plea for Cooperation among Accountants*

BY ROBERT H. MONTGOMERY

Until quite recently an article on professional standards would have seemed out of place, unless found in a journal read largely if not exclusively, by clergymen, doctors or lawyers. The recognition of accountancy as a profession, while gained in a marvelously short time when we consider its history, is yet so new a matter that it is difficult to define accurately the conditions which exist, and a far more onerous task to outline ideal standards. At first thought we might take it for granted that a code of ethics generally followed or at least particularly fitted to the legal or medical profession might with propriety be recommended to the accountant, but there are so many inherent peculiarities which differentiate the professions named that accountants find themselves forced to compile a new code.

It is not too much to say that more is expected of a professional accountant in these youthful years of the profession than was exacted from the lawyer or doctor when their professions were centuries old. The law, perhaps, made the most rapid strides, although the standards have been raised considerably in comparatively recent years. We frequently hear of attorneys who are not faithful to their trusts, but the total number of recreants is very small, and the ever vigilant bar associations honestly strive to rid the ranks of those who have violated their rules. The medical profession has been rather slow in its advance to universal public respect. Not so many years ago the barber applied the leech without thought of punishment for practicing without a license. We cannot take the time to examine the progressive steps made by these two great professions, nor follow in detail the gradual growth of their codes of ethics, but a cursory look is sufficient to convince the observant student that legislation has not been responsible for their present high standards. The moving cause has been the careful education and training of the juniors and constant supervision over their early practice; not supervision by state boards, but through school societies, and state and national organizations.

Cooperation among the practitioners is responsible more than any other thing for the high standing of these two professions today,

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\* *Journal of Accountancy*, November, 1905, Vol. 1, No. 1.

and while we ask for the same measure of legislative protection, we must not lose sight of their history and the keynote of their success, which, after all, is largely explained when we consider the definition of the word "profession," viz., "An employment requiring a learned education." Let education, then—in its broadest sense—be our watchword.

Before we attempt to lay down rules of conduct for the professional accountant, we should review briefly his qualifications, for it would be a waste of time to make suggestions as to what the accountant should *do* unless we agree as to what he should *be*.

Assuming that he is skilled in accounts there are other desirable, and, in fact, necessary qualities. Mr. Dicksee, in his "Auditing," mentions the following: tact, caution, firmness, fairness, good temper, courage, integrity, discretion, industry, judgment, patience, clear-headedness, and reliability; "in short, all those qualities that go to make a good business man contribute to the making of a good accountant; while that judicious and liberal education which is involved in the single word, 'culture,' is most essential for all who would excel. Accountancy is a profession calling for a width and variety of knowledge to which no man has yet set the limit." If this is a fair portrait of an ideal accountant, it is obvious that he will be expected to conduct himself on a much higher plane than if he were subject to less onerous rules of conduct. But as he is measured by the community at large, so must he regulate his own relations (1) to the public, (2) to professional brethren, and (3) to himself.

#### RELATIONS TO THE PUBLIC

Unquestionably the public demands a high standard in accountants, *but only in particular cases and at particular times*. That is, the average financier, lawyer, or business man cares little and thinks less about a general standard of efficiency, and is unwilling, as a rule, to accord proper support to the accountancy profession *as a profession*; but if a specific instance arises involving error or misconduct on the part of any one purporting to practice as a public accountant, he awakens to the importance of requiring the maintenance of a high standard, and the good name of the whole profession is thereby involved without any means whatever being provided for punishing or disciplining the guilty party. No one can hold himself out as a lawyer and practice law unless he is admitted to the bar. No one can hold himself out as a doctor nor practice

medicine unless he has been licensed by a state board. And either the lawyer or the doctor may be disqualified if he fails to maintain the proper standard.

But any one can call himself a public accountant or an "expert" accountant without having a single qualification for the profession, and such a man frequently receives generous support from the public. His severest punishment for malpractice is usually merely the loss of the one particular client who has suffered through him.

The remedy for this condition is clear. What the public demand in specific cases should apply in all, and a system of registration or certification similar to that required in law and medicine should be compulsory. The certified public accountant legislation so far effected has not accomplished the best results. We are in exactly the same position as the legal profession would be if certain lawyers were admitted to the bar and called themselves "admitted" lawyers, while a great many other persons, although not admitted, enjoyed the same privileges, practiced in the same courts, and were permitted to sit on the bench.

We are advised that the state of Ohio is about to enact accountancy legislation which embodies not only the usual clauses governing the certification of public accountants, but in addition prohibits any one practicing in any form as a public accountant unless certified according to the requirements of the proposed bill, which, incidentally, has been approved by prominent lawyers and business men in that state.

In this connection we have been advised by our brethren from over the sea that a plan of registration which would restrict the practice of public accounting to qualified accountants has been presented to Parliament several times and has been defeated, not because the public object, but because of disputes between rival societies. Happily the latter condition no longer exists with us, and the experience of the members of the profession in Ohio would seem to justify the assertion that the business public welcome rather than oppose legislation which promises to limit the practice of accounting to responsible persons. It is to be hoped that the ability to arouse public sentiment along these lines is not confined to one state.

It would seem, therefore, that those states which have certified public accountant laws that do not protect the public from unqualified practitioners should amend them as suggested above. It is quite true that in several states it would have been impossible a

few years ago to pass any such restrictive law, and it may even now be urged by some, who have learned by bitter experience the difficulty of securing regulative legislation, that in view of the objections which might be raised, any agitation along this line would be a mistake. Such a position, however, entirely ignores the great advance made in recent years, especially in the last year. Indeed, within the last month, some of the foremost men in the United States—including President Roosevelt—have paid a tribute to public accountants, which is direct proof of the change in sentiment over several years ago. If, then, public accountants are needed, who is to pass upon their qualifications? Surely not the man himself, as is now the case.

We need, however, to do far more than attach the letters C. P. A. to our names. The certificate must be made to *mean* something, and to accomplish this, constant vigilance will be necessary.

Let us take advantage of the public recognition so far accorded to accountancy as a profession, and use it as a basis to secure proper legal safeguards, and the benefit which accrues will not only inure to those properly qualified, but the largest benefit will flow to the public.

#### THE RELATION OF ONE ACCOUNTANT TO ANOTHER

Reference to the qualifications of a professional accountant easily convince us that the possession of a part only would suffice to make him not only an ideal accountant from the standpoint of his clients—the public—but he would also possess those qualities which would endear him to his competitors. The latter term is used in its broadest sense, of course, and is used advisedly, for it has been found by experience that as a rule, the professional accountant who has finally lodged in a place where he no longer competes for general business from the public has also lost all interest in the advance of professional standards, and cares but little for friendly contact with fellow practitioners. He has lost the professional spirit and with it fraternal feeling.

Fifty years ago several Scottish accountants imbued with both professional and fraternal feelings, organized the first society of public accountants. Thirty-two years elapsed before a society was formed in the United States—the year 1887 witnessing the formation of the American Association of Public Accountants. Let us put the accountancy profession to a test and, by examining the history of the last eighteen years, form an opinion as to whether represen-

tative accountants in the United States have acquitted themselves well, and whether those qualities which we mentioned as essential have, as a matter of fact, been manifest.

I unhesitatingly answer that accountants *have* borne themselves well, they *can* stand a hard test, and I believe I can prove it. In the first place, the most severe test of a man's technical ability, fairness, good temper and courage are found in his intercourse with his competitors. An unskillful, mean, ill-tempered, weak man does not want to rub up against his fellow practitioner. It follows, therefore, that the formation of a society in which are found practically all of the leading professional accountants in a given community is proof that those in question measure up, approximately at least, to the ideal standard. Furthermore, while there are several medical societies, and many societies of engineers in the same neighborhood, there is but one society of professional accountants in any one state in the Union, and no state in which there are a dozen reputable practicing accountants is without a society.

But it may be said that the formation and success of a society, while it may be ample proof of a high standard in several particulars, is not evidence of other necessary qualities. For instance, what does one accountant have to say about his fellow society member when the latter is not around? I answer that, as a general rule, the most kindly feelings prevail. The heartiest praise I have heard of some accountants has come from the lips of competitors. Of course, we occasionally hear criticism, and we shall doubtless always hear it, for it is a debatable question whether or not the accountancy code of ethics should prohibit any criticism of a competitor whatever, whether merited or unmerited. Physicians are notoriously careful about this and the result has been at times that incompetent doctors have killed off their patients by reason of the fact that the incompetency of their doctors has been carefully concealed by their fellows, the patient having mighty little opportunity to discover it for himself. Still another test which, it might fairly be supposed, could not be passed by the majority of public accountants is the practice of soliciting or undertaking work which has been done in the past by a competitor. To my positive knowledge accountants have declined to undertake work which they have had offered them after ascertaining that it had been formerly intrusted to fellow accountants whose services had been satisfactory. The latter, of course, is a necessary element, because under any code of ethics it would be the clear duty of an accountant to undertake work which

had not been satisfactorily performed by another. It is not claimed, of course, that the above conditions are without exceptions, but the claim is made in all sincerity that with respect to the attitude of one member to another no other profession in the history of the world had made such rapid strides in a few years toward attaining a high standard, and, if there are those who fail to measure up to their opportunities, it is believed that lack of knowledge rather than indifference is responsible for such failures. This lack of knowledge is easily explained, for it must be remembered that in some communities the accountancy profession has but one representative, who can hardly be expected to originate or uphold a high standard of professional ethics "all by himself." With all his difficulties, nevertheless, we will usually find that in theory, at least, an accountant who strives to be independent has set up for himself most commendable ideals. Undoubtedly this accounts for the comparative ease with which practically all the accountants in every large city "get together." Were it not for the true professional spirit that has grown up unawares in the heart of each one, the present satisfactory condition of the profession would have required a half century of cultivation.

Advantage should be taken of the present era of good feeling to bring the profession still closer together, and correct any defects that may still be apparent. One of the most important points is the desirability of enlisting the support of all reputable accountants to their local society. A strong society not only carries great weight with the public, but is of incalculable benefit to a man individually. It broadens his vision generally, and, if accountancy questions are discussed by his society, it gives him an opportunity to get out of a beaten path.

It must be remembered that no one of us is free from error. The best lawyers make mistakes and lose cases which they should win; the best doctors, through errors of judgment, kill patients whom they should save, and so even an accountant will sometimes make a mistake and the last, the very last one who should criticise him or attempt to profit thereby is his fellow practitioner.

Incidentally, it is worthy of note that incompetent assistants are responsible for the majority of mistakes which have been attributed to professional accountants. Serious consideration should be given to this question, because it is not only highly desirable that our assistants should be above reproach, it is more than desirable, it is vital. The hope of the future lies in the proper education

of a sufficient number of young men to fill the ranks. Schools are accomplishing much in this direction and can confidently be counted upon for more. The English custom of articulated clerks might well be established here, and it is hoped that before long young men from the colleges and universities will be found eager for an opportunity to enter the office of public accountants, and instead of expecting compensation out of all proportion to their usefulness, will consider the experience they are getting ample pay and will depend for their advance upon the intelligence they display. Apprenticeship is practically in effect in the legal and medical professions and corresponds very closely with English methods. Time will no doubt solve this problem, but some definite step should be taken immediately to improve present conditions.

#### THE ACCOUNTANT'S PERSONAL STANDARD

The personal element in a professional accountant is necessarily a prominent one. In fact, a man who embodies one-half the qualifications named as desirable must possess the strongest kind of personality. Fortunately this portion of my subject needs little discussion. While we may occasionally find an accountant who criticises too freely or unfairly, we rarely find one who has not set for himself a high personal standard of professional conduct. How many instances have come to us where a confidential communication has been divulged? Who has heard of one? And is it not a fact that of the hundreds of practicing accountants in this country almost each one is in constant receipt of information, the disclosure of which would frequently be of great pecuniary advantage? Have we ever heard of a case of a professional accountant who has failed to account for funds intrusted to him? And is it not a fact that tens of millions of dollars are turned over to them monthly for inspection?

Of course, there are exceptions, but I claim that the proportion of those who fail to measure up to their responsibility is smaller than with any other like number of men occupying positions of responsibility. The moral responsibility of the accountant is largely personal, and the insistence on a high professional standard implies a full measure of moral accountability. It is hardly necessary to dwell at length on this phase of the question. Several of the speakers at the recent banquet of the American Association referred to the necessity for a high personal standard, and while too much can hardly be said on so important a topic, yet it may safely be said that the present state of affairs is highly encouraging.

It has been urged that two necessary steps in the progress of the accountancy profession toward complete recognition and establishing high standards are (1) exemption from jury duty and (2) the right to regard confidential communications from clients as privileged, thereby furnishing the means to prevent undesired disclosures.

As to the first point there seems to be little real merit in the claim. The Anglo-Saxon regards the jury system as one of the bulwarks of his liberty and he will continue to think so until something better is devised. Jury service is a clear civic duty which should never be avoided unless some reason better than the usual selfish one is present. It is conceivable that occasionally in the course of years an accountant might be engaged on some particular work the cessation of which would be injurious to the general community, but such occasions are so rare that it certainly would be unwise to attempt to secure universal exemption to fit an unusual and individual case. The classes now exempt are few and the reasons therefor are so good that their cause needs no support. With respect to accountants, however, it is my opinion that there are dozens of other classes of men as to whom personally equally important reasons could be urged for exemption in particular cases, and if we consider family and business hardships reasons for exemption, the list of those available would be narrowed down to the most worthless classes of the community.

It must not be forgotten, moreover, that where service on a jury will work real hardship it is comparatively easy to be excused, and unless an accountant is able to show good cause for his unwillingness to serve the state he certainly does not deserve special privileges. I am of the opinion that any agitation along this line will be harmful to the profession at large and result in a diminished respect for individual accountants who would thus seek to avoid a public duty.

The second point mentioned above is far more difficult of solution for there are many arguments in favor of the extension of legal "privilege" to public accountants with respect to such matters as are laid before them in a confidential capacity by clients. It cannot be disputed, however, that the necessity for such procedure seldom arises and the cases of accountants being called as witnesses and forced to disclose confidential communications are few, if, in fact, there have been any.

As a matter of fact it is hardly conceivable that such a case will ever occur, unless it is discovered by a prosecuting attorney, that a guilty defendant has destroyed incriminating books and papers, or,



having confessed his crime to an accountant, refuses to incriminate himself on the stand. In such cases it is submitted that the welfare of the public would be better served if the accountant witness is compelled to testify than if he is permitted to screen himself behind a technical privilege. He is not at all in the position of a doctor or a lawyer. He is supposed to be an independent public accountant, and if he has had submitted to him books and papers which contain information to which others than his client are legally entitled, why should the law interpose to prevent justice being done and the truth known? The books and papers, if they can be found, are the best evidence, of course, but if they have been secreted or destroyed, why should the guilty parties be protected?

It will, of course, be urged that the information which an accountant might be forced to disclose might not be of such a character, and that no public service would be accomplished by compelling its publication. The answer to this is that under our laws refusal to testify is not in itself a crime, and if an accountant were called upon to divulge matters which he deemed to be confidential and refused to answer, it would be the duty of the court to pass upon the effect of such disclosure; and I venture to express the opinion that accountants need never fear, even under present conditions, that any judge will require them to disclose confidential matters unless the case is a grave one and public interest demands. In all cases the testimony sought would have to be pertinent to the issue.

If this is a fair presentation of the case it would hardly seem wise, for the present at least, to make any serious effort to secure a privilege so rarely granted that the legislatures in the majority of our states have not been willing to extend its protection to the secrets of the confessional.

#### LEGAL RESPONSIBILITY

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 so 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 pro-

fessional 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 accountants in practice and the 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. It is unfortunate that any one should be permitted to practice as a public accountant, who, in case of gross negligence or malpractice, has so little financial responsibility that a judgment against him would be worthless, and who, moreover, is beyond the legal reach of his fellow practitioners, who at present have no opportunity to prefer charges against one who is neither a member of a state society nor certified by a state board.

The absence of decided cases, however, does not alter the principle of law that anyone 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. The law only requires of him the skill of an ordinary skillful accountant; the law gives him the privilege of assuming the accuracy of many things unless he has definite suspicions to the contrary, and as already stated, the law never requires one to measure up to the standard of the most skillful in the same profession or trade. In this respect accountants are to be congratulated, for it is common knowledge that the majority of professional accountants in the United States seek to do more for their clients than the law requires, and every year witnesses a more general desire to advance the quality of services rendered.

It is earnestly hoped that further progress will be made in this direction. Since the wish for high standards is general, let each individual accountant do his part toward maintaining them. Public opinion should be aroused so that unqualified practitioners will gradually cease to practice and in their place a united certified body

will control all accountancy matters—not because the law grants them exclusive privileges, but by reason of the fact that they can be depended upon at all times and under all circumstances, while the others cannot.

#### THE FUTURE

This is a critical time in accountancy. Much has been accomplished recently, and we may be pardoned for feeling gratified at results little short of wonderful, but for the very reason that public sentiment is now strongly in our favor; for the very reason that many individual differences of opinion have been harmonized; for the very reason that many accountants, stimulated by encouraging words from men high in authority, have, with the highest purposes, resolved to meet the exacting obligations imposed upon them; for all of these reasons I say that a solemn obligation lies upon each one of us not only to maintain past traditions as to what an ideal accountant should be, but also to raise the standard up to the highest ideals.

To accomplish this, some self-sacrifice will be required. It will be necessary for some who do not belong to their state or district society to join forthwith, and by so doing indicate their interest in and jealousy for the good name of the profession. It will be necessary for some who belong to societies, but who have taken no active part in their work, to sacrifice a part of their time to the meetings, lectures, addresses and discussions. Such work will have its reward, for while it will be of great service to the younger members of the profession who need advice and encouragement, the reflex benefit is considerably greater than is generally supposed.

It will also be necessary to eliminate, almost, if not entirely, all adverse criticism of a competitor's work or professional standing, unless the facts at issue are known and perfectly clear. Good fellowship is not only desirable as a manly virtue, but it pays from a selfish standpoint in that it results in great respect and confidence on the part of the public.

Another consideration of recent growth is the practice of competitive bidding. It cannot be defended, and unless direct action is taken to put an absolute stop to it, great harm will result both to client and practitioner. Not only is the whole idea wholly unprofessional, but, strange as it may seem, there is absolutely no compensation to offset the harm done. For example: Client A requests B, C and D to bid for stated work. Assuming that an effort is made by each to secure the work (and otherwise they should not bid), it

is only natural that steps will be taken to do the least work actually called for, and that as low a fee as the contract will stand will be made. The successful bidder surely does not render any service to his chosen profession when he accepts the contract, for Client A is now furnished a basis for future work and he can be depended upon to advise all of his associates to adopt his method of securing low prices.

The inevitable result of a few such instances would be the general lowering of professional standards. This is highly undesirable if we expect to work together, not only for our present good, but for posterity, to which we wish to transfer an honorable and respected profession.

Let us then thoroughly appreciate the importance of compiling a code of ethics for the accountancy profession that will embody the essential elements of the highest skill and include the broadest principles of fraternal cooperation.

# To What Extent Can the Practice of Accounting Be Reduced to Rules and Standards?\*

BY GILBERT R. BYRNE

Modern professional practice of accounting covers a wide range of subjects, and its field, if the experience of the past decade can be taken as a guide, may be expected to widen still further in the future. For example, in 1931 a report of a committee of one of the professional bodies of accountants classified accounting services in six divisions; to this list would now have to be added those services performed by accountants in connection with registrations of securities and other matters for the Securities and Exchange Commission. To discuss the possibility of stating rules and standards relating to all of the matters coming within the practice of the present-day accountant would be quite impossible within the limits prescribed for this article, even if it were agreed that it is practicable to consider the formulation of rules and standards for, say, the installation of a cost system or the prosecution of a tax case.

It probably would be conceded that the major portion of the professional accountant's practice is concerned with the examination of financial statements and the accountant's report thereon; and the discussion which follows will be confined to a consideration of whether and to what extent this phase of the accountant's work can be reduced to rules and standards. As a preliminary to this discussion it will be helpful to recall that, broadly speaking, the accountant's purpose in making his examination is to determine that proper accounting principles have been consistently followed in keeping the accounts, and that clear and truthful financial statements have been prepared therefrom. To assure himself of these facts, he employs a technique of auditing procedures. There are therefore, really three phases of the accountant's work in connection with the examination of and reporting on financial statements, each of which may be considered potentially subject to reduction to rules and standards:

- (a) Accounting principles, and the rules derived from these principles.

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\* *Journal of Accountancy*, November, 1937.

- (b) The practices and conventions relating to the presentation of accounts in financial statements.
- (c) The technique of auditing.

The general question as to formulating and stating the principles, rules, conventions, or standards of the practice of accounting has engaged the attention of a number of writers and speakers on accounting subjects in recent months. There have been developed two quite divergent points of view; on the one hand, those who urge that a statement of accounting principles can and should be formulated, and on the other, those who envisage the impossibility, if not the undesirability, of the task. The following quotations, characteristic of the first school of thought, are interesting:

After a quarter-century and more of active discussion and experimentation in this country, many of the simplest and most fundamental problems of accounting remain without an accepted solution. There is still no authoritative statement of essential principles available on which accounting records and statements may be based. Public accountants . . . have been asked to certify to the correctness and adequacy of accounting statements, when no satisfactory criteria of correctness and adequacy have been agreed to.<sup>1</sup>

And another commentator has expressed similar ideas in these words:

Accountancy has . . . the tendency to rely on precedent and authority rather than on the scientific method. . . . It is as if engineers had no agreement on the required strength of foundations, structural steel requirements for skyscrapers, or efficient design for power plants.<sup>2</sup>

It is perhaps not unnatural that the authors of the above are men of academic or regulatory-body training; expressions of the opposite view given below are those of practising accountants:

The field of financial accounting is not one in which guidance is to be found wholly in fixed principles—it is a field of shadowy outlines in which the discovery of a correct course depends upon the possession also of an ability to recognize the essential facts and to appreciate their true significance (distinguishing where necessary between form and substance); upon informed and wise judgment; and upon objectiveness and honesty of purpose. It will be observed that these are not qualities which can be insured by regulation.<sup>3</sup>

<sup>1</sup>A Statement of Objectives of the American Accounting Association. *The Accounting Review*, March, 1936.

<sup>2</sup>George C. Mathews—Address before Milwaukee Chapter of Wisconsin Society of Certified Public Accountants.

<sup>3</sup>George O. May—Improvement in Financial Accounts. *Journal of Accountancy*, May, 1937.

Another practitioner comments on the published discussion as follows:

First, what has frequently been spoken of as accounting principles includes a conglomeration of accounting practices, procedures, policies, methods and conventions relating both to the construction of accounts and their presentation; and second, there seems to be a general agreement among the commentators that the difficulty of any attempt to formulate so-called principles or prescribed rules and regulations on accounting matters is so large and the conditions encountered so diverse that few, if any, sweeping generalizations can safely be adopted.<sup>4</sup>

As indicated previously, there are three phases of the accountant's work in connection with the examinations of financial statements and his report thereon which may be considered potentially subject to reduction to rules and standards. First, the accounting principles which he must assure himself have been properly and consistently applied in preparing the accounts; second, the practices and conventions relating to the presentation of the accounts in financial statements; and third, the technique of auditing employed by the accountant in determining that the accounts and statements have been properly prepared. As indicated by the author of the last quotation above, recent discussions have used the term "accounting principles" to cover a conglomeration of accounting practices, procedures, conventions, etc.; many, if not most, so-called "principles" may merely have to do with methods of presenting items on financial statements or technique of auditing, rather than matters of fundamental accounting principle. It is not strange, perhaps, that lacking completely satisfactory definition of terms, or clarification of the fields of discussion, there has been little or no agreement among accountants as to what extent, if at all, rules and standards of accountancy practice can be stated.

In fact, the confusion with respect to the matter of differentiating between accounting principles, rules, conventions, practices, etc., is so great that some have despaired of reaching a solution, and have raised the question as to whether, after all, there are such things as accounting principles. It is proposed, therefore, first to inquire as to the nature of accounting principles, the distinction, if any, between an accounting principle and an accounting rule, and then as to whether accounting principles and accounting rules can satisfactorily be formulated. Some consideration will then be given to the extent to which the accounting practices and conventions

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<sup>4</sup>F. P. Byerly—Formulation of Accounting Principles or Conventions. *Journal of Accountancy*, August, 1937.

relating to the preparation of financial statements and the technique of auditing can be reduced to rules and standards.

The standard form of report used by most accountants in certifying financial statements of corporations whose securities are listed on the New York Stock Exchange is predicated upon the existence of known accounting principles, for it concludes after an opening paragraph briefly describing the nature and scope of the examination made:

In our opinion, based upon such examination, the accompanying balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, its position at December 31, 19—, and the results of its operations for the year.

Such a statement presumably represents the informed and well-considered opinion of an expert in the field of accounting; it presupposes that there are principles of accounting, known to the accountant, which can be applied to business transactions so that the resulting books of account and the financial statements prepared therefrom may fairly reflect the financial position of the enterprise at a given date and the results of its operations for a specified period. There must be agreement among accountants that there are recognizable principles of accounting, for if there is not this agreement, accountants have indeed stultified themselves.

It is probably safe to say that all schools of accounting thought would agree that it is desirable to have formulated in an authoritative way the principles of accounting to which reference is made in the form of accountant's report quoted above. While there have been several attempts to enumerate them, to date there has been no statement upon which there has been general agreement. This lack of agreement, it is submitted, results in large part because there is no clear distinction, in the minds of many, between that body of fundamental truths underlying the philosophy of accounts which are properly thought of as principles, and the larger body of accounting rules, practices and conventions which derive from principles, but which of themselves are not principles. If accounting, as an organized body of knowledge, has validity, it must rest upon a body of principles, in the sense defined in Webster's New International Dictionary:

A fundamental truth; a comprehensive law or doctrine, from which others are derived, or on which others are founded; a general truth; an elementary proposition or fundamental assumption; a maxim; an axiom; a postulate.



President Coolidge said, "Laws, whether statutory or natural, are not invented—they are discovered, and discovered only after experience." In the development of any field, principles are discovered which represent the fundamental truths in which the field of knowledge rests. These principles are applied in the working out of problems that arise, and gradually, rules of practice evolve which, over a period of time, become accepted to a greater or lesser degree as reflecting the effect of the principle in oft-recurring cases. Such rules become the working tools of those engaged in the particular field of knowledge. While the principles upon which the body of knowledge rests cannot, from their nature, be subject to dispute, the rules derived therefrom have validity only to the extent that they properly reflect the principle. Pending complete demonstration of this fact, usually through experiment, there may be considerable disagreement as to whether a particular rule should be followed. Accounting, as well as law, engineering and many other fields, has followed, and is still following this pattern of development. It is probable that there are principles still to be discovered, and certainly accounting rules are still in process of crystallization.

As to the fundamental principles of accounting, there can be no more question of their "general acceptance" than of the moral rightness of the ethical principle that it is wrong to kill. But there are legal rules derived from the moral command, "Thou shalt not kill," which have differed at different times and in different countries. At one time no legal penalties attached to a noble who killed a serf, and even in our own colonial times no jail sentence awaited the Pilgrim Father who shot a stray Indian at sight. At present, legal rules derived from the moral principle are to the effect that an accidental killing is subject to less penalty than killing in the heat of passion without premeditation, and that the latter is considered legally less culpable than wilful, premeditated murder. Legal rules in different states classify differently legal culpability for killing. In short, while there is no difference of opinion as to the moral principle that killing is wrong, there have always been, and still are, differences of opinion as to how the principle shall be reflected in legal rules, and also differences of opinion as to whether the legal rules have been properly applied to the facts in a particular case. The latter is one reason for the popular interest in murder trials.

Another example of the differences between fundamental principles and the effects of their application may be drawn from the

engineering profession. There are, of course, principles of engineering governing the size, weight and design of the steel members of a bridge structure. In designing the Manhattan and the Williamsburg bridges, which were built in 1909 and 1903, respectively, and were proposed to span the same stream, presumably sound engineering principles were applied to the problem in each case. In the application of those principles the results, so far as appearance of the two structures are concerned, are quite different, yet no one accuses the engineers of having applied different principles to their respective problems merely because the results of such application have not been identical bridges.

In much the same way, while there may be complete agreement as to the underlying principles of accounting, there may be legitimate and proper—one might say inevitable—differences of opinion as to the effect of the application of a particular principle of accounting to the facts in a particular case, or, in other words, as to the propriety of the accounting rules derived from the principle. Further, while the fundamental principles of accounting remain unchanged, the rules and practices derived therefrom will, and ought to, develop as required by changes in business practice. It should cause no surprise if financial statements a generation hence differ as much from those of the present day as these differ from those of a generation ago. The principles of accounting remain the same, and about them there should be no substantial disagreement; as to the body of accounting rules, practices and conventions derived from those principles, there may well be differences of opinion as to their validity in a particular case. As a result of such inevitable differences in opinion, therefore, it is not difficult, in reviewing the work of members of the accounting profession as exemplified by published reports of corporations accompanied by an accountant's certificate, to find instances where apparently similar transactions have been given what appears to be different treatment by different accountants. When analyzed, however, the differences in treatment most frequently reflect, not incorrect nor improper underlying accounting principles, but merely differences of opinion as to the best manner of presenting the accounting effect of the application of such principles.

From the above discussion there begins to emerge, it is hoped, an outline of accounting as an organized body of knowledge resting upon a body of fundamental principles admittedly known to and utilized by accountants in the course of their examinations of finan-

cial statements. Certainly, then, these principles can be stated. From these principles, however, have been derived certain accounting rules which have validity only as they correctly reflect the application of the principle on which they depend. Since there may be considerable difference of opinion as to the propriety of accounting rules, the task of stating those rules with respect to which there may be said to be general agreement, is a formidable one. It would seem, therefore, that a long step forward in the solution of the problem which is the subject of this paper would be to establish a basis for distinguishing between an accounting principle and an accounting rule.

Dr. Henry Carter Adams, in discussing the claims of accounting to classification as a science, has said, "The commonly accepted proof that a body of organized knowledge has attained the rank of an established science is the coercive or compelling character of the generalizations to which it gives rise and which come to be known as scientific laws (principles)."<sup>5</sup>

The compelling character of the scientific laws of health is evident, because to disregard them in the long run literally results in death. Engineering principles have a coercive character, because to ignore them in the building of a bridge would probably result in the collapse of the bridge. Such principles are compelling in the sense that they are in effect self-enforcing; they cannot be disregarded with impunity.

The principles of accounting are also characterized by their coercive or compelling quality because inherent in accounting principles are business laws which must be obeyed if in the long run the enterprise is to survive. This does not mean, of course, that adherence to correct accounting principles is, in itself, a guarantee of business success; accounting has to do largely with the financial policies of business, and policies of sales, production, labor, and other management problems are important elements in the success or failure of a business enterprise. It should be apparent, however, that the basing of financial policies upon accounting statements which in turn are not prepared in accordance with fundamentally right accounting principles, may lead to courses of action which, if too long pursued, will adversely affect the financial health of the business. It is in this sense that the fundamental principles of accounting may be said to be coercive and self-executory.

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<sup>5</sup>H. C. Adams—*American Railway Accounting*.

Professor Arthur S. Dewing, in describing the financial difficulties of the United States Realty and Construction Company in 1903<sup>6</sup> said as to the causes therefor that "two of these causes were concerned with the methods of accounting tolerated by the company's management. . . ." Both of these methods clearly violated the accounting principle that unrealized and undeterminable profits should not be included in the income account. Professor Dewing<sup>7</sup> gives as one of the causes of the failure of the Consolidated Cotton Duck Company in 1909 the "inadequate allowance for depreciation." Any list of accounting principles would include a statement to the effect that the investment in an industrial plant should be charged to operations over the useful life of the plant. Most experienced accountants will recall other instances where failure to follow correct principles of accounting has led to financial embarrassment.

Accounting principles, then, are the fundamental concepts on which accounting, as an organized body of knowledge, rests. Like the axioms of geometry, they are few in number and general in terms; they possess the distinguishing characteristic of a compelling and coercive nature, and they are the foundation upon which the superstructure of accounting rules, practices and conventions is built. It is not the purpose of this article to attempt a formulation of the principles of accounting, but for illustration, it seems desirable to indicate roughly what, on the basis of the above description, such a statement would include:

- (1) Accounting is essentially the allocation of historical costs and revenues to the current and succeeding fiscal periods.
- (2) The investment in an industrial plant should be charged against the operations over the useful life of the plant.
- (3) In computing the net income (available for dividends) for a period, all forms of expense incurred in the production of such net income must be provided for.
- (4) The income shall include only realized profits in the period during which realized; profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that collection of the sale price is not reasonably assured.
- (5) Losses, if probable, even though not actually incurred, should be provided for in arriving at net income.

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<sup>6</sup>*Corporate Promotions and Reorganizations*, p. 239.

<sup>7</sup>*Ibid.*, p. 374.

- (6) Capital-stock and capital-surplus accounts, taken together, should represent the net contribution of the proprietors to the business enterprise.
- (7) Earned surplus should represent the accumulated earnings of the business from transactions with the public, less distributions of such earnings to the stockholders.
- (8) While it is not in many cases of great importance which of several alternative accounting rules is applied in a given situation, it is essential that, once having adopted a certain procedure, it be consistently adhered to in preparing the accounts over a period of time.

It is not suggested that the above list is complete, and certainly not that it is free from all possible criticism. It is urged, however, that it represents, however imperfectly, some of the underlying principles of accounting about which there can be no dispute as to their validity, which possess the characteristic of compulsion in the sense more fully referred to above.

From such principles are derived many of the rules, practices, and conventions used in the practice of accounting. Some of these rules are really special cases under, or corollaries of, one of the fundamental principles, and as such have much of the compelling force of the parent principle. Such a rule is the familiar one that inventories should be priced at "cost or market, whichever is lower"; this rule is really an application of principle 5 above. On the other hand, many rules as to the pricing of inventories at "cost" have been developed, such as "first-in, first-out," "last-in, first-out," which cannot be considered as principles, because such rules obviously have no compelling character, of themselves. In the application of the principle that it is necessary to provide for probable losses, the accountant has full liberty to employ any one of these rules as to pricing, according to his judgment as to what is the most appropriate rule in view of all the circumstances, and, whichever one he selects, he should not be charged with violation of any accounting principle.

A familiar example is that of the numerous rules which have been proposed for charging to operations the cost of an industrial plant over its useful life. So long as this principle is applied, it can make little difference in the long run which of the rules for spreading the cost year by year is used. Such rules should not be confused with the principle, for they have not the coercive nature which characterizes a principle.

In the application of accounting principles relating to the allocation of revenues and expenses to periods and to the determination of the realization of profits in certain types of contracting business, there have been developed two accounting rules for use in appropriate cases. Where the contracts comprising the business on hand are few, large in amount, and require long periods for completion or fabrication, an accounting rule is invoked which permits the computation of periodical profits or losses based on the percentage of completion of the contracts in progress. On the other hand, if the contracts involved are numerous, moderate in size and the construction period is less than one year, it is considered that the accounting principles referred to have been correctly applied where profits (and losses) are determined when contracts are completed or deliveries made. It should be apparent that in borderline cases good accounting and business judgment based on long experience are essential for competent decision as to which of the above rules is properly selected. Such rules are not principles, for they are not of themselves, compelling, and have validity only as they correctly reflect the principles on which they are based.

A review of the published material relating to the matter of standardization of accounting practices indicates that it is largely the body of accounting rules derived from principles which the academically-minded critics wish to see definitely formulated. They become impatient at the fact that, pending crystallization of accounting practices based on fundamental principles into generally accepted rules, there are differences of opinion among accountants and among business men as to the proper application of a given principle of accounting, or as to which of two or more principles are applicable in a given case, or as to which of several methods of presentation of the effect of the application of a principle is the more logical or informative. They apparently feel that swifter progress would be made if accounting rules were presently established by an accounting authority, or possibly by dicta of government commission. Presumably our democratic political philosophy would then require some judicial body to which appeal could be made for decision between persons of opposite view, so that, following the example of the legal profession, official precedents would be established for future guidance. As to whether such procedure would in fact facilitate the formulation of generally accepted accounting rules, it should be recalled that whereas legal rules have been in process of formulation and definition for many centuries, some of them are still

far from final settlement, and differences of opinion are so widespread that they are reflected in five-to-four decisions in our Supreme Court. We may be encouraged, then, in insisting on the present laissez-faire method of development of accounting rules when we consider by comparison the progress made by the accounting profession in its less than one hundred years of experience. As was said by Mr. Justice Holmes,

When men have realized that time has upset many fighting faiths, they may come to believe that the ultimate good desired is better reached by free trade in ideas that the best test of truth is the power of thought to get itself accepted in the competition of the market; and that truth is the only ground on which their wishes can safely be carried out.<sup>8</sup>

And with the specific reference to differences of opinion regarding reporting on accounting matters, Professor T. H. Sanders remarked:

In the face of these difficulties the main reliance must be on accountants of sufficient experience, disinterestedness, and sound judgment to be able to make the best choices among alternatives. As experience accumulates, however, it becomes possible to embody it in general principles (rules) for the guidance of all concerned. Not that these principles (rules) can ever be a substitute for judgment and experience, but they may serve to supplement these in a helpful way and to reduce the area within which the application of judgment is desirable.<sup>9</sup>

There seems to be no good reason why the experience of the accounting profession to date should not be reflected in a statement of accounting rules, soundly based on fundamental accounting principles, provided it is recognized that such rules have validity in a particular case only if and to the extent that they correctly reflect the underlying principle. The choice between one or more rules, or between methods of applying the rule selected, must always rest upon the skill, experience, and informed judgment of the accountant. It has been well said that these are qualities which are not insured by rules and regulations.

The fundamental principles of accounting followed in keeping the accounts are, of course, reflected in the financial statements periodically prepared therefrom. The manner of preparation of the statements, the classification of the data shown thereon, and the various methods of disclosure of pertinent information have, however, been the subject of many rules, regulations and dicta, which have frequently been dignified improperly with the title of "accounting principles." Such rules are properly designed to produce statements

<sup>8</sup>Abrams v. United States, 250 U. S. 616, 630.

<sup>9</sup>T. H. Sanders—Reports to Stockholders. *The Accounting Review*, September, 1934.

which are convenient and informative, but they are based almost solely on constructive and logical thought as to what presentation will most clearly inform the reader as to the facts desired to be set forth; they have not the quality of compulsion which it is urged is an essential attribute of a fundamental accounting principle.

Many of the rules and conventions relating to presentation of financial statements are so completely logical and have become so imbedded in practice that to disregard them would be to mark the practitioner as inept and unskilled in his art. Compliance with them is assumed by those accustomed to reading financial statements. It is customary, for example, to prepare balance-sheets in statement form, with assets on the left and liabilities and capital on the right; to separate and subtotal current assets and current liabilities, property accounts, long-term debt and the like. But suppose the items, correctly described, were simply listed in alphabetical order on a balance-sheet; the fact that conventional arrangement was not followed might mark an unskilled accountant and might cause annoyance to the reader of the statement, but the violation of the conventions relating to presentation would not cause financial embarrassment; they cannot be said to have compelling or coercive character.

Aside from the conventions as to form, the underlying principle relating to presentation and classification of items and accounts in financial statements is hardly an accounting principle at all but the moral principle that with respect to financial statements the accountant is bound to tell the whole truth. In other words, however an item is listed or classified, it should be correctly described. To include a note due five years from now in the usual balance-sheet under the caption "current notes receivable," to describe an investment "at cost" when it really had been written up 50 per cent., to include extraneous windfall profits in operating earnings, would violate this principle, and this principle is compelling in the sense that those who violate it are subject to moral and even legal penalties.

A number of rules which are really based on this principle are given in the text of section 2 of the bulletin, *Examination of Financial Statements*, issued by the American Institute of Accountants in January, 1936. For example:

Funds subject to withdrawal restrictions should be so described on the balance-sheet.

The reserve for bad and doubtful accounts should be shown as a deduction from the corresponding assets.



The amount of any accounts receivable that have been hypothecated or assigned should be so shown on the balance-sheet.

Notes payable to affiliated companies and to stockholders, directors, officers and employees should be shown separately on the balance-sheet.

Any default in the interest or sinking-fund requirements that may exist (as to funded debt) should be mentioned on the balance-sheet.

Serial bonds, notes and mortgage instalments due within one year should be separately disclosed and, if material, should be included with the current liabilities.

Such rules as the above are essentially suggestions which, if followed, will tend to insure that no material fact is overlooked in the preparation of financial statements. A considerable body of this type of rule has been stated in the bulletin referred to; while others could no doubt be added, it is obviously impossible to foresee and provide rules to cover all possible situations. The busy practitioner knows how very frequently problems of presentation arise which are not covered by any stated rule; his recourse is to apply the moral principle that it is his duty to give the reader the pertinent information in a logical and understandable manner. The result must rest primarily on the integrity and skilled, informed judgment of the accountant. If, in similar situations, equally capable practitioners arrive at different solutions, it may well call for what Dr. Lin Yutang calls a typically Chinese point of view, that "A is right, but B is not wrong either."

There is a large volume of accounting literature dealing with the technique of auditing procedure employed by the accountant to assure himself that correct accounting principles have been employed in arriving at the balances in the accounts, and to afford him the necessary information for judging whether the pertinent facts are fully and truthfully displayed in the financial statements prepared from the accounts. Most of this literature represents an attempt to reduce auditing technique to rules and standards. Probably the most successful general statement of the rules of auditing technique is contained in the second section of the bulletin Examination of Financial Statements issued by the American Institute of Accountants in January, 1936. The text of the bulletin emphasizes that in determining the nature and extent of the examination, the accountant will necessarily take into consideration, among other things, (a) the purpose of the examination, (b) the amount of detail included in the

statements to be covered by his report, (c) the type of business the accounts of which are to be examined, and (d) the system of internal check and control.

It seems apparent that the rules of auditing technique must be limited to rather general statement, such as that contained in the bulletin referred to above, and that the element of personal judgment, competence and integrity of the auditor is far more important than detailed specifications for making audits. With respect to auditing procedures to be undertaken in a specific engagement, however, an audit program written for that particular engagement is a desirable aid to a well-conducted examination, and is a valuable record of just what was done.

To what extent can the practice of accounting, as it relates to the examination of and reporting on financial statements, be reduced to rules and standards? Accountants of the highest abilities and reputation are willing to give their considered opinion, after due examination, that the financial statements under review fairly present the position of a company based upon accounts determined in accordance with accepted principles of accounting. It follows that these fundamental truths upon which such opinion is based, and which may be properly dignified with the term principles, are known to the accountant and are matters with respect to which, by their very nature, there can be no general disagreement. These principles are characterized by their compelling or coercive nature, and this attribute distinguishes them from those rules of accounting which have been derived from principles but, of themselves, have no validity except as they logically depend upon principles. The principles of accounting, as herein defined, are capable of being stated and agreed to; the rules of accounting derived therefrom are subject to gradual crystallization as experience winnows those which are valid from those which are doubtful. The conventions and rules with respect to the presentation of data in financial statements depend on the moral principle that all material facts necessary to the proper and complete understanding of the statements must be given; many of these conventions are so firmly imbedded in practice that there should be no difficulty in enumerating them. As to the rules of auditing procedure, a general course may be charted, as in the American Institute bulletin, and certainly programs of audit for specific engagements are useful tools, but in preparing such a program the first essential is a high type of professional and moral equipment on the part of the practitioner.

# Ripley V. Winkle\*

*Public Accountant and Auditor*

BY T. EDWARD ROSS

It had been a very busy day in late February, 1891, and Mr. Winkle was reviewing with one of his senior accountants the schedule of the audit of The North and South Company for the calendar year 1890. He scanned the audit program carefully to see that each item had been fully completed, including a verification of postings and footings of all the items of cash receipts, cash payments and allowances at head office as well as at all the branches; a verification of all footings and postings of sales at head office and branches; examination of checkbooks and all checks, deposits, bankbooks, bills payable, etc., counting of cash on hand and verifying bank balances; verification of footings of pay rolls and comparison with cashbook; audit of vouchers, bills, etc., and comparison with books; and making final trial balances of all ledgers as of December 31, 1890.

Having satisfied himself of the adequacy of his investigation, he reviewed the balance sheet and statement of profit and loss and drafted his report. Mr. Winkle then put a few papers into a green cloth bag to take home with him, closed the safe and his roll-top desk, bade his assistant "Good-night," and took his departure. At a nearby corner he boarded a horse-drawn street car whose route lay near his home. The hay on the floor was wet from the snow which had been tracked in by the passengers, the atmosphere was cold, and Mr. Winkle felt he would be glad when he reached his destination.

When his corner was reached, he alighted and started to walk the short distance to his door, but as he neared the white marble steps, his feet flew from under him, his head came in contact with the brick pavement and he was rendered unconscious. A neighbor who happened to be passing notified his family and helped carry him into the house.

The accident to Mr. Winkle proved quite serious. Under medical treatment he improved physically, but he was unable to understand what was occurring about him. At times during the years that followed his doctor had hopes that his mental faculties might be restored, but in this he was disappointed.

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\*L. R. B. & M. JOURNAL, May, 1941.

In the meantime, Mr. Winkle's son had reached maturity and had begun work with his father's firm in which he eventually became a partner. He often wished that his father's faculties might be restored so that he might see the great developments which had taken place. His father's physical condition continued excellent and he gave every indication of reaching an advanced age if no accident should befall him. But hope of his mental restoration was at last given up.

After the lapse of fifty years, however, a surgeon who became interested in the case performed an operation which resulted in the complete restoration of Mr. Winkle's mental faculties.

When he was sufficiently recovered to observe his surroundings, he found himself in a very different world from that to which he had been accustomed. He learned that the telephone was no longer largely confined to offices, but had become a household necessity. Hearing the words, "This is Berlin," or "We take you now to London," he wanted to know what was happening. The droning of an airplane aroused his curiosity. From the front windows he saw strange looking vehicles and buses going at a speed which he knew exceeded the ten-miles-an-hour limit, and he wondered how pedestrians managed to escape death at crossings. He was told about red and green lights at intersections and one-way streets, also about gasoline and how automobiles were operated, and he felt he had awakened to a very dangerous life.

While he was regaining his strength he learned about the Spanish-American War, World War I, World War II, about Prohibition, Votes for Women, and a Third-term President. He nearly passed out when he heard of a public debt of billions upon billions of dollars and more to come.

He was greatly disturbed by the short skirts the women wore, their toeless shoes, and their red lips and fingernails, not to mention their cigarettes. He wondered if his son lived in a respectable neighborhood, but when he broached the subject, he was told he had not seen anything yet. When he picked up a magazine and saw pictures of bathing beauties and Miss This and Miss That, he looked to see if it was the *Police Gazette* that had gone to such extremes. And where was Josiah Leeds, who had been head of the Law and Order Society and had regularly prosecuted theatre managers for exposing posters which, however, left something to the imagination?

Mr. Winkle thought a good deal about the work in which he had once engaged and asked to be taken to his former office as soon as his condition warranted. He was informed that the site of his former

office was now a parking lot, but he would be taken to the offices of the firm shortly.

When Mr. Winkle was recovered sufficiently to go out, he was invited to take a ride in an automobile to see something of the city suburbs. When the car started he became terrified at the speed with which it moved and the pace of other cars which apparently rushed directly toward them and from side streets. He begged to be allowed to get out, but was prevailed upon to remain on the promise that they would go slowly and would soon arrive where there was less traffic.

The sections of the suburbs through which they passed had changed greatly since last he saw them. Large estates had given place to communities of houses set in grounds of limited extent. Concrete roads had replaced the waterbound macadam roads with which he had been familiar; and the toll gates had disappeared. The small villages of yesterday had been replaced by towns whose main streets resembled those of the city's shopping centre. In place of the high-wheeled bicycles of his youth, noisy motorcycles whizzed past, making Mr. Winkle more nervous than ever.

On a somewhat quieter road they passed a large field with stretches of well-kept lawn, broken here and there with sand pits, the latter usually surrounding little plots of level lawn with flags in the center. Mr. Winkle inquired what the ground was used for, and was told it was a golf course. He recalled he had heard of a few idle people who spent their time chasing a small ball around a cow pasture and coaxing it into a small hole, but he was surprised that it had gained any headway where people who wanted sport could see a good baseball game without too much effort, or could play tennis if they wanted something more vigorous. When he was told that there were many such courses around the city and thousands of them throughout the country, he wanted to know where the money came from to build and care for them. He was informed that the club members paid substantial fees toward the upkeep, and a considerable portion of the original cost had been supplied by loans on gilt-edge mortgages, the edges of which, however, had later become somewhat frayed.

On the way home the car stopped at an old inn which Mr. Winkle had known in other days. On entering the modern tap-room he saw through a haze a group of women seated around a table and he assumed he had come in by the "ladies' entrance" by mistake, but was assured he was not intruding. He noticed that the man

behind the bar did not sport the regulation drooping mustache, and Mr. Winkle wondered if he even kept a bung-starter handy in case of emergency.

A day or two after this venturesome trip, Mr. Winkle felt rested enough to visit the office of his son's firm. The wide street leading to the centre of the city was new to him, but eventually he recognized the City Hall which could not be mistaken even after a lapse of half a century. The tall office buildings caused him some astonishment, as eight or nine-story office buildings had been regarded as the last word in his day. His trip in the elevator as he was shot up to a top floor was not altogether pleasant, but he was assured he would soon get used to it.

The offices seemed too spacious for a firm of public accountants, and after a cursory inspection of the layout, he was much puzzled as to the size of a practice which would justify such an establishment. He inquired why it was necessary to employ a telephone operator; what use could be found for all the typewriters; what was kept in all the filing cases; what so many bookcases were for, etc. In his day only a few books on accounting were available. Did they keep a library of fiction to amuse the staff during the slack season? Had the partners all married heiresses so that they could keep up a big front and do a little accounting on the side? What had become of his roll-top desk? And the high desk and stool in the staff room?

Mr. Winkle's son soon realized that there had been a few slight changes in the profession since his father had bossed the office, so he took him on a tour to disabuse his mind of his assumptions. As he proceeded with his explanations his father began to realize that the practice of accountancy had changed drastically. Some of the equipment was not altogether new to him, but it was used on a larger scale and many new devices had come into use.

He noticed that one of the staff was referring to a large book and learned that it was Volume II of a handbook on Federal taxes, the two volumes containing more than 2300 pages. What taxes, he inquired, made such volumes necessary? When told about the Federal income tax, he asked if such a tax was constitutional. Surely Benjamin Harrison had never approved such a measure! And how could any man find time to read such books and yet keep up with his other work?

It was explained to Mr. Winkle that not only was the income tax constitutional, but that there was also a Federal inheritance tax which, in the case of large estates, relieved the heirs substantially

of the burden of caring for too much riches. Furthermore, that the income tax which had originated in a small way, had grown to such proportions and the accounting problems involved were so varied that the public accountant's practice had been greatly increased as a result.

As Mr. Winkle continued his review of what was going on in the office, he listened in on an argument concerning inventories, where the phrases "cost or market, whichever is lower," "first in-first out," "base or normal stock method," "last in-first out," had a most unfamiliar sound. He had never realized before that an inventory could be quite so complicated.

The question of reserve for depreciation came to his attention and he recalled that on at least one occasion he had been called "a fanatical bookkeeper" for suggesting such a reserve, as he was informed that his client always maintained his plant in first-class condition. He inquired how public opinion on this point had changed, and was told that one of the principal factors was the income tax, and that even taxpayers who made no entries on their books for depreciation had recognized the validity of the principle in connection with income tax returns. Here he ran into more mysterious terms, such as "straight-line depreciation," "retirement-reserve method," and "depreciation on appreciation," and he realized anew that he was in strange territory.

For his enlightenment, he was given a pamphlet entitled "The Depreciation Situation" in which he found an apt illustration of the varying aspects of the subject. It was said that a golf ball has a disconcerting tendency of taking itself out of circulation via the rough, the woods or the pond before it becomes obsolete; therefore, for the dub's use, an old ball is as valuable as a new one. Hence the conclusion, "If the predominating causes work gradually and constantly, depreciation progresses in the same manner; but if the predominating causes are ones which work irregularly and strike with finality when they do occur, there is little depreciation until the final chapter." Mr. Winkle's knowledge of golf was decidedly limited, but he thought the ball did throw some light on the problems of depreciation.

Later, he listened to a heated argument as to whether the profit arising from a certain transaction should be credited to "Earned Surplus," "Capital Surplus" or some other account, and he heard some enlightening theories concerning "accounting principles."

Mr. Winkle inquired if there were any books or articles which

he could read to bring him up to date, and he was referred to the output of the American Institute and the numerous auditing and accounting works which had been published since he was engaged in practice. In perusing some of the pamphlets, such as Extensions of Auditing Procedure and similar publications, he found references to matters in practice with which he was entirely unfamiliar, and he felt like a school boy trying to understand the works of Einstein.

Mr. Winkle recalled that the last report he had written was on the audit of the accounts of The North and South Company and he asked if the Company was still in existence. It happened that the printed copies of a registration statement to be filed with the S. E. C. had just been received, and a copy, containing more than a hundred pages, was given to him for his perusal. The report he had written fifty years ago ran, "We report that we have audited the accounts of your Company for the year ended December 31st, 1890, and found them to be correct," and a balance sheet and statement of profit and loss had been attached. What purpose was now to be served by the printed volume before him? He turned first to the auditors' certificate and found it was about twenty-five times the length of his certificate. The size of the balance sheet amounts staggered him, and the half-dozen pages of notes thereon amazed him. Then followed pages of notes on the income statement, but the consolidated balance sheet (with more notes) was something the like of which he had never seen. He had no strength left to read the numerous schedules which followed.

Turning back to the earlier pages he noted the amount of information supplied, some of which he had always regarded as of a most "confidential" nature. The statement of fees, taxes, etc., involved in filing the statement astonished him. He noted with particular interest that the accounting cost was more than a hundred times his fee for the annual audit of fifty years before. But the printing cost seemed to him as something beyond reason, "and how," said he, "could business organizations earn enough to provide for these expenses and the millions of dollars of taxes which were recorded in the statements!"

He inquired if every investor was furnished with a copy of the registration statement. He was then shown a copy of the prospectus which had less than a hundred pages. Even that seemed a most formidable document and he wondered how many investors read the document and how many understood its significance after they had read it.



The reading of the registration statement was quite a drain on his strength. Mr. Winkle decided that at his advanced age it was too late to recover ground lost while he was suffering from his affliction. Accountancy had traveled a long distance in half a century and he recognized his inability to overtake it. At any rate, what he had read in the newspapers made him depressed and he longed to escape from an environment which was so different from that to which he had once been accustomed.

To read of death and destruction from the depths and from the skies, of women and children being blasted, of venerable cathedrals and other historic buildings being reduced to rubble, of concentration camps, and, generally, of hell let loose on earth, was not his idea of a normal world.

He felt tired as well as dispirited and he asked to be taken home, where he could rest for a while and seek to recover his composure.

Before leaving, however, he remembered that it had been his custom to keep a small hoard of gold coins in the safe for emergencies, and he inquired if, by any chance, it had been kept intact. He was informed that anyone keeping such a reserve now was subject to certain pains and penalties, that the holders of gold and gold certificates had been reimbursed in fifty-nine cent dollars, that the gold clause in bonds had been ruled out by the courts, and that the Government in addition had purchased gold wherever available at a high price and then had stored it underground.

Mr. Winkle's amazement at this state of affairs was beyond bounds. The idea of a citizen of a so-called free country being deprived of his property in such a high-handed manner, and of a sacred contract being voided by a court which pretended to administer justice!! As to the rest of the program, he could not find words to express his feelings.

The shock of this revelation prostrated Mr. Winkle and an ambulance was summoned; he was hurried to a hospital and put to bed. He realized that the world to which he had awakened was so different from that in which he had lived and worked that he was out of place in it.

As he lay in the hospital, his mind turned to another world of which he had often read. Apparently gold was not highly treasured there, as he recalled that the streets of the city were paved with it. He remembered that the walls were built of precious stones and the gates of pearls. He was not much of a theologian, but he reasoned

that possibly the description of the city was intended to indicate to limited mortal intelligence that the rarest of earth's treasures were of very minor value in that country in comparison with its riches. Evidently there would be no need for an S. E. C. there, for "there shall in no wise enter into it anything that defileth, neither whatsoever worketh abomination or maketh a lie."

He had always loved a river and there was to be one there, "clear as crystal." And a garden. Would it not be interesting to see what a well-watered garden would be like when there would be no Japanese beetles, caterpillars nor bugs to despoil it. It would be a delightful place for one who was now tired and weak in which to find rest and new life. And as he mused, he fell asleep.

# Professional Accounting Practice Today and Tomorrow\*

BY DONALD P. PERRY

A contemporary writer says that men “. . . who have always been secure come to feel that life will stay the way it is, or that it will get back to normal after a disturbance”; but when their dreams of security are dispelled they “. . . are likely to go to the other extreme . . . and conclude that everything must alter radically, and for the worse.” Our dreams of security have certainly been disturbed. Where between the extremes are we likely to find ourselves when the disturbance subsides? Will our activities and our outlooks in the field of accounting be radically altered or shall we find them back close to the former normal? I shall try to paint briefly and with a broad brush the probable effects of recent developments on the future practice of accounting.

## POSTWAR EFFECTS

While disclaiming any prophetic power, I feel that some wartime trends and developments may be considered indicative of the future and that their effects will carry over to some extent into the postwar period. Just as the onset of the war emergency brought no abrupt revolution in accounting practices, but instead gradual developments to meet changed situations, so the advent of peace at some future date will not suddenly return us to the conditions of the late thirties. Postwar business conditions will be different from prewar, and, furthermore, accounting practice and practitioners will inevitably be affected by the experiences and problems encountered during the emergency.

Many problems arising as the result of wartime conditions will continue to perplex us for years after the war. Uncertainties which will be resolved only by future developments have in the past presented difficulties in accounting practice, and have been a basis for criticism by some who hold the erroneous conception that accounting statements are by their nature intended to be exact and accurate representations of fact. Uncertainties in financial position and operating results have been multiplied under war conditions, and unsettled factors in connection with the termination and renegotiation of contracts and with our complex taxation scheme will

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\**Accounting Review*, April, 1944.

remain to a substantial degree for many years. The bearing of these uncertainties on corporate credit and on appraisal of security values will obviously be of major import in relation to peace-time working capital requirements and financing possibilities.

#### ADVANCES IN TECHNIQUE

The accounting profession may be faced with the need of developing further techniques for dealing with these uncertainties informatively and with judgment, fairness, and restraint. For example, it was not uncommon in 1942 financial statements to deal with prospective renegotiation of war contracts solely as a contingent liability covered by a balance sheet footnote. Some companies met with rude surprises in the effect which actual settlements had on that year's operating results. For 1943, accountants felt that financial statements should in some way incorporate reasonable provisions out of the year's earnings for renegotiation refunds.

#### DIFFICULT DECISIONS

Industries expect after the war a more or less protracted period of retooling, plant reconversion and rehabilitation, and redevelopment of markets. Accountants may then be urged to approve deferment in charging the costs of such prospective efforts until later periods when profitable results therefrom are anticipated. Management will desire to relieve current operating expense of some of the burden of reestablishing maintenance postponed during the activity of the war production years. Decisions may be difficult as to the proper application of postwar contingency and other reserves previously provided out of profits or otherwise. Representations made in financial statements when the reserves were provided, the treatment accorded reserves in contract settlements, in renegotiation proceedings, and in taxation, and the over-all fairness of proposed accounting handling will all be considered in dealing with these questions. The wisdom and judgment displayed by the profession in this area may provide a criterion upon which will depend future confidence of the public in the profession.

#### PLANT OBSOLESCENCE

Obsolescence of property, plant, and equipment is another factor which will merit careful consideration when present emergency production has ended. The volume of goods required for war purposes has made it profitable to utilize to capacity many plants which in normal times have been sub-marginal. The efficiency of such

properties and of other old plant and equipment will be eclipsed by new productive capacity installed in wartime at a cost of some twenty billion dollars, the greater part of which is government owned and the rest privately owned. Obsolescence of prewar machinery will also have been hastened by the accelerated development of new products and new applications of materials, such as plastics, light metals, electronics, and transportation and communication equipment. Limitations on provisions for obsolescence allowed for purposes of taxation and renegotiation may have been such that current accounting provisions do not adequately reflect the true extent of obsolescence. Business management should face such facts, and the accounting profession should be prepared to assist it in taking a realistic attitude toward plant utility and value.

#### IMPROVED COST ACCOUNTING

Because most manufacturing concerns have been engaged on production under government contracts which in settlement, termination or renegotiation have involved determinations or allocations of costs and profits, the methods used in cost accounting have assumed great importance. Information which can be made available by cost accounting methods and cost departments will not be cast aside lightly after the period of government contract operation has ended, at least by most concerns. However, the cost accounting function in many companies may be expected to undergo refinements and a shift of emphasis from use for contract-cost determination to use for controlling production efficiency and measuring profit margins under trade conditions of keen competition.

#### RESUMPTION OF COMPETITION

Markets will change fundamentally from the present situation, in which the government is the chief or sole customer, to a most active competitive status. Restrictions on instalment buying will eventually be lifted and a vast accumulation of liquid assets and purchasing power, deferred during the period when many consumers' goods have not been available, will be awaiting the potential production of America's expanded industrial plant. In such a revival of intense private competition, the services of those experienced in practical cost accounting will be in demand for estimating new cost standards and providing effective controls over production and distribution costs, rather than for making historical determinations of contract and other costs.

#### TAX SIMPLIFICATION

With income and profits taxes absorbing a major portion of the operating profits of business concerns, with the increased rates of personal income taxation, and with millions of new taxpayers reporting to the Treasury Department as the result of increased earnings and lowered exemptions, it is not strange that there is a growing popular concern over the complexity of our national system of taxation. Congress begins to realize that the structure is in danger of falling of its own weight and that some simplification must be made. Accountants who have dealt with tax questions throughout their professional careers have a peculiar opportunity to make substantial contributions in this field. As members of an organized profession they have on past occasions offered suggestions for legislation and administration, but perhaps in the future such suggestions drawn from experience may be accorded more weight than ever before.

#### ADDED RESPONSIBILITIES

It is not impossible that simplification of our income tax administration might develop in a direction which would place added responsibilities on the accounting profession. Shortage of available income tax inspectors led the Canadian tax authorities in 1942 to experiment with a plan that placed greater reliance on the auditors of taxpayer corporations, whereby the auditor reviewed a questionnaire supplemental to the tax return and made a written report thereon, including a statement of the scope of his examination. The questionnaire is relied upon to disclose to the authorities possible differences between corporate income as reported and income subject to taxation. Many of the complexities of our Federal tax practice arise from the differences between taxable and book income which stem from technical definitions drawn by the law and Treasury regulations—differences which in the long run often wash out without affecting the aggregates over a term of years. After all, the whole development of accounting principles and practices has had as one primary aim the fair determination of income. An income tax structure which produces returns with more and more differences from fairly determined corporate earnings is certainly not a sound national development.

If the Canadian experiment should prove successful, our own authorities might draw upon that experience and upon somewhat similar practices in Great Britain, and endeavor to bring income

subject to taxation more closely in line with book income as reported and examined by independent auditors. Granted that there is little evidence in current administrative or legislative trends to suggest that such a change in policy is likely in this country, nevertheless, it might possibly result from general dissatisfaction with the present situation. It would entail an added responsibility for the accounting professions, and possibly require a more independent and judicial approach to tax work than at present; but it is the type of social responsibility which the profession should be prepared to accept if it develops.

#### EXTENDED SCOPE OF SERVICES

Prior to the war, the average accounting practice was largely composed of audit work and preparation of tax returns, sweetened on occasion by nonrecurring system engagements or cases dealing with new financing. The scope of services rendered by accountants has been considerably extended in wartime, and it seems probable that the success of the profession in handling these varied assignments may result in a wider field of practice in the future. The problems of business management have been tremendously complicated by the network of wartime controls in the face of expanding volume, and shortage of managerial manpower has led many clients to turn to professional accountants for assistance. Conversion of industrial plants to high-volume production of wartime goods in the face of material and labor shortages has called for improved methods of production planning, allocations of materials, and inventory controls.

Accountants have been asked to verify compliance with wartime rules for wage and salary stabilization, wages and hours regulations, price ceilings, and rationing procedures. They have assisted in negotiation and renegotiation of government contracts and have aided extensively in inspection, audit, and termination proceedings. Many special reports to the Office of Price Administration, the War Production Board, the Foreign Funds Control Unit, and other agencies have involved accounting and financial data. Independent auditing has been extended in the labor union field and among certain government-owned corporations. Practicing accountants have thus been gaining wider experience and new stature, and at the same time business management and government representatives have had opportunity to appraise the ability of the accountant when he is confronted with new situations. To the extent that the profession

has had a measure of success, it may confidently anticipate future calls to meet the problems and controls which will face business in the postwar period of reconversion, readjustment, and reconstruction.

#### FUNDAMENTALS VS. FORM

Enumeration of some of the government reports and controlling regulations with which we have been dealing leads to the mention of a significant effect on the work of the professional accountant. The administrative needs of government bodies in connection with reports from business units appear inevitably to lean toward standardization of form and treatment. As a result an unconscionable proportion of the practicing accountant's time is nowadays concerned with study of regulations and compliance with required form.

Rules and regulations as to reporting are so numerous and in many cases so rigid that the accountant may find himself in danger of giving first attention to compliance therewith, to the detriment of adequate consideration of fundamental matters of principle and policy. Nor can the definitions and rules laboriously absorbed in one connection be carried over into another field of regulation. Definitions relating to corporate affiliations, for example, are very different in reports under the Securities Act of 1933, under the Public Utility Holding Company Act, and under Foreign Funds Control, to say nothing of the income tax regulations.

The profession has frequently pointed out the dangers and weaknesses of excessive standardization and insistence on uniformity by regulatory bodies and has done its part under war conditions in the struggle to limit the number of questionnaires and reports demanded of business. However, one can as yet hardly discern much reversal of the trend. Let us hope for and continue to strive for its reversal after the emergency is over.

#### BROADER BACKGROUNDS

Such extensions of the accountant's zone of operations as have been mentioned may be expected to accelerate the development of his interest and participation in the more comprehensive fields of economics and governmental administration. Problems of the war's aftermath will indeed force these subjects on the attention of every thinking citizen, and the accountant will find in them many direct applications to his future work. Over-all renegotiation of war



contracts and claims for excess profits tax relief are two examples, both of which involve concurrent consideration of accounting factors and underlying economic and social judgments.

Again, the trend in this country away from the isolationist view in favor of world cooperation will stimulate interest in foreign trade, monetary exchange, and economic and social development of other regions of the world, all entailing accounting implications.

#### CHANGING PRICE LEVELS

Should a major price inflation develop, accountants may be faced with reappraisal of the validity of the cost principle in accounting for plant. Would not the theory of "original cost" appear unrealistic in the face of a considerable rise in price levels and, if so, should accountants take the lead in consideration of the effects on public utility accounting and regulation?

#### EQUITABLE VS. TRADITIONAL RULES

Settlement of lend-lease transactions and of the scrambled ownership of properties in enemy-occupied countries points to possible inadequacies of traditional accounting and legal controls over values and titles without reference to underlying economic equities and realities. Ration coupons in relation to individuals, like lend-lease between governments, have pointed to limitations of the "silly old dollar sign."

#### SOCIAL RESPONSIBILITIES

The accountant should take an active interest in the future extent of government regulation and the relationship of government to business. He has been in a position during the last two decades to observe the weaknesses both of *laissez faire* and of bureaucratic controls, and he realizes that development of workable controls different from either of these traditional extremes will require vision and resolution, intelligence and understanding on the part of leaders in business, labor, and government.

The long-term trend has been to place increasing social responsibilities on the accounting profession by expanding its functions and giving increased emphasis to judicial independence in auditing work. As already suggested, the scope of professional problems has been broadening. Indications that society may place greater reliance on the independent judgment and integrity of the profession are to be found in the tax proposals heretofore mentioned and in the extent

to which governmental contracting agencies and renegotiation boards have relied on the work of accountants engaged by war contractors.

#### ACCOUNTING EDUCATION

In conclusion, a brief word should be said as to the general bearing these thoughts may have on accounting education. The educator is always confronted with the question of where the emphasis in curriculum and instruction should be placed as between teaching accounting techniques and development of understanding of principles, policies, and underlying social sciences. Obviously, the man trained to recognize the significance of new situations and to meet them on the basis of an experienced judgment and a command of basic principles has been a more useful member of the profession in wartime than the narrowly-trained technician. This is likely to be true also in years to come. While techniques will be improved and must be mastered by the successful accountant, the future leaders of the profession will require more than ever an understanding of the background of accounting in political economy, sociology, and ethics. It is to be hoped that accounting can be taught in such a way as to produce not mere theoreticians, but rather men who are practical because their practice is based on sound conceptions of underlying human relationships.

# The Certified Public Accountant on the Threshold of his Second Half Century\*

BY PRIOR SINCLAIR

The members of the accounting profession are gathered here from all states in the Union, from the territories and from other lands in this the fiftieth year since the passage in New York State of the first certified public accountant law.

It is fitting at this occasion that we pause in the consideration of present-day problems, review the history of our profession and endeavor to glean from our study of the past, the knowledge that will best serve to guide us in the future.

It is but a few years ago—in 1937—that The American Institute of Accountants celebrated in New York City its fiftieth birthday, for the organization of that national body first known as The American Association of Public Accountants preceded by nine years the passage of the first certified public accountant law.

However, it would be an error to think of the profession in this country as of but 50 or 59 years of age. The early publication of the news of our profession makes many references to informal meetings and round table gatherings of public accountants which took place in the years preceding the organization in 1882 of "The Institute of Accounts," the first National Society of Public Accountants. It was by these group meetings that the need was recognized for a formally established national organization.

It is interesting, and indicative of the pride in being recognized as a public accountant which also then existed, to note that in 1908, in this same city, at a convention of the American Association of Public Accountants, James G. Cannon, an outstanding banker of his day, remarked in the course of his address that he had on his library wall a framed certificate showing his membership in the "Institute of Accounts of New York City."

I have said that the existence of the profession long preceded the formation of its national societies or the passage of C. P. A. legislation. To my mind this is shown by an item appearing in the *Journal of Accountancy* for October, 1913, reading as follows:

It is customary to consider the profession of the public accountant as one of very recent date, but apparently there have been public accountants in this country from the late eighteenth century onward.

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\*An address delivered on October 3, 1946, at the Fifty-Ninth Annual Meeting of the American Institute of Accountants.

Evidence of this is offered by an advertisement which appeared in the *New Jersey Journal* of Wednesday, July 8, 1795, printed and published by Shepard Kollock at Elizabethtown, N. J.

The advertisement reads:

“NOTICE

“A conveyancing office and office of intelligence will be opened by the subscriber on Monday next, in the brick house of William Shute, Esq., formerly occupied by Cortland Van Arsdalen; where writings of every kind will be done on moderate terms; also, farmers’ and tradesmen’s books posted with accuracy and dispatch, and those who do not understand the method of keeping their books will be shown the form.

“(Signed) BENJAMIN THOMSON”

It seems to me that Benjamin Thomson presented his qualifications in moderate but well chosen words and although the publication of his announcement long preceded the adoption of our Code of Ethics, it nevertheless does it no violence.

As a further indication of the early existence in this country of the professional accountant, the New York City directory of the year 1801—one hundred and forty-five years ago—lists the name of William Connolly, Accountant.

William Connolly was the great-grandfather of one of the present-day leaders of our profession, a man who commands our esteem and affection—my beloved associate—William M. Lybrand.

Our profession owes much to the skill and talent, the broad understanding, the courage and the vigorous integrity of those early leaders of the profession who established the standards of professional conduct which have guided us so well throughout the years and which have contributed so greatly to the advancement of the profession.

Theirs was a difficult task, accounting literature in that day was limited in quantity, but, fortunately, of high quality. In the absence of authoritative interpretations and recognized conventions the public accountants, however, had the boldness to follow their reason. They sought to be not only right but aggressively right and the subsequent history of the profession establishes the wisdom of setting such a course.

Let us briefly review the history of the profession in New York State, for the history and growth of the profession in that state parallels that of the nation.

It was on April 17, 1896 that Governor Levi P. Morton, of the State of New York, approved the bill passed by the State Legislature which created the title Certified Public Accountant and defined who

should be entitled to be so designated. The first examination under the new law was held in December, 1896. Seventy-five C. P. A. certificates were awarded in that year. It was from this group of Certified Public Accountants that the material came for the formation of the New York State Society of Certified Public Accountants, which was incorporated on January 28, 1897, and which started on its memorable history with eighteen charter members.

The Society was organized on March 30, 1897, at a meeting at the Waldorf-Astoria Hotel, and the first annual meeting of the newly-formed society was held on May 10, 1897. At that meeting the secretary reported a total membership of twenty-four, of whom fifteen were in attendance. That the Society was on a sound financial basis with disbursements well within the limit of its revenue was evidenced by the statement of the treasurer reporting receipts of \$171.25 and disbursements of \$26.00.

The Society promptly entered upon a career of activity; nine meetings were held during the year 1897. It may be that clients' demands were not onerous as I find that in October, 1897, a committee was appointed for the development of a plan of exercise and entertainment for the coming Winter.

The Society was early aware of the need for scholastic training in accountancy subjects, training that would bring education in technical subjects to those who desired to undertake the examination for the certified public accountant's degree. It was through the direct efforts of the Society that the New York University School of Commerce, Accounts and Finance was organized and started operation on October 1, 1900.

It is a source of pride that of the fifteen members of the faculty of that school, six were members of the New York State Society of Certified Public Accountants, one of whom, Charles Waldo Haskins, was appointed Dean and who, while already serving the Society as President, nevertheless undertook this additional responsibility.

Thus was formed the first school in this country for instruction in accountancy, soon to be followed by others. In comparison, at the present time there are listed in the regulations by the Commissioner of Education of the State of New York ninety-four institutions throughout the country having a course of study of a satisfactory standard to meet the present requirements of the Certified Public Accountancy Law of New York State.

Thus a few farsighted men in those early days started the schools and universities of this country on the pathway of accountancy

instruction and in the following years as the demands of the public for the services of public accountants grew, trained men, skillful and in ever-increasing numbers were available to meet that demand.

It would be most propitious if time on this occasion permitted a reference to each of the many members who in those days devoted themselves unstintingly to the affairs of our societies and by so doing contributed so greatly to the advancement of our profession. It would be amiss entirely to omit such references, as societies consist of members; the character and quality of the group does but reflect those of the individuals. Our Society quickly demonstrated its quality, its members had quality.

Mention has been made of Charles Waldo Haskins who served the New York State Society as President from its inception in 1897 until his death in 1903. Serving as officers or directors in those early years you will find listed Arthur W. Teele, our first Secretary, Farquhar J. MacRae a charter member serving first as a director and later as President. Farquhar J. MacRae is the only living charter member of the New York State Society and during the past year the New York State Society of Certified Public Accountants presented him with a special Charter Member Certificate commemorative of fifty years of loyal membership in the New York State Society of Certified Public Accountants.

Among others prominent in the New York State Society's affairs in those years were F. W. Lafrentz, John R. Loomis, Elijah W. Sells, John B. Niven, Samuel D. Patterson, who later served as Secretary for many years, Edward L. Suffern, Charles E. Sprague, under whom I studied, and Sanders W. Davies, later the first President of the American Institute of Accountants. The limitation of time does not permit the mention of others also worthy of your admiration.

Those were busy years; matters under consideration were of extreme importance; the decisions made set the pattern for the future. During the first ten years of the Society's existence there were five attempts by others to secure legislation amending the New York C. P. A. law. The Society was diligent and succeeded in resisting the attempts to lower the standards of eligibility. In subsequent years, changes in legislation have provided for the changes in public need.

In those same years, practitioners in other parts of the country were also active, forming in groups, tackling the problem of appropriate State legislation and striving to perfect the national organization, The American Association of Public Accountants, which in

1887 the public accountants of Pennsylvania were largely instrumental in bringing into being.

Pennsylvania was the second state in the union to benefit by C. P. A. legislation. Pennsylvania was fortunate in having such sterling leaders as John W. Francis, John Heins, Charles N. Vollum, Joseph E. Sterrett, William M. Lybrand, T. Edward Ross, and his brother Adam A. Ross, the then and now youthful Robert H. Montgomery, and Geo. Wilkinson of Illinois, then a nonresident member of the Pennsylvania Institute of Certified Public Accountants.

In the efforts to bring about a national organization and to build a firm foundation for our profession we were fortunate in also having the warm, enthusiastic and able assistance of our brethren from overseas. The wise counsel of Mr. Edwin Guthrie helped greatly in the early task of organization. Arthur Lowes Dickinson contributed generously from his fund of understanding and experience. The aid these men rendered in solving early problems of the profession is beyond measure.

In the ensuing years professional activities moved forward with greater rapidity. Public recognition grew, and our responsibilities increased. With the growing public recognition and the expansion of the nation's commerce and finance, practitioners grew in numbers and experience.

With the advent of federal income tax legislation taxpayers looked to public accountants for assistance. The determination of the amount of taxable income and the amount of tax thereon requires keen accounting skill and understanding. So serious is the impact of taxes, that businessmen must know before entering into a transaction its possible tax effects. Accountants' views on tax legislation were sought by Treasury advisers, legislative committees and the administrators of the law. Income tax laws today are intricate, oft-times obscure—our recommendations have been consistently directed toward simplicity. I wonder if taxpayers realize how much worse the laws would have been if we had not made suggestions for improvement.

A bulletin entitled "Approved Methods for the Preparation of Balance Sheet Statements," prepared by a committee of the American Institute of Accountants and released in 1917 by the Federal Trade Commission and approved by the Federal Reserve Board served to inform the public, particularly lenders and credit grantors, of the character and scope of the public accountants' work. Through-

out the years revisions were made and the latest issue, including revisions to 1936, entitled "Examination of Financial Statements by Independent Public Accountants," is still authoritative.

The establishment by the American Institute of Accountants of research committees and the issuance of *Bulletins* presenting their viewpoints on auditing and accounting matters serve to keep the entire profession informed on vexing questions as they arise. This work is now ably supported by an executive of the Institute, the Research Director, and a staff of assistants.

The growth in published material available for the benefit of the membership is impressive. In 1910 the New York State Society in its yearbook, catalogued 126 volumes available in the Society's library—today the library of the Institute contains 25,000 books and pamphlets, many written by its members.

In November, 1905, 41 years ago, the first number of *The Journal of Accountancy* was published under the auspices of The American Association of Public Accountants, the forerunner of the present American Institute of Accountants. It was under the able editorship of Joseph French Johnson, Dean of the New York University School of Commerce, Accounts and Finance, and Dr. Edward Sherwood Meade, Director of the Evening School of Accounts and Finance, University of Pennsylvania.

The first number of the *Journal* contained articles entitled:

    "Education and Training of a Certified Public Accountant"  
—By J. E. Sterrett, C.P.A.

    "Duties and Responsibilities of the Public Accountant with  
Regard to New Issues of Stocks and Bonds"—By Arthur Lowes  
Dickinson, M.A., F.C.A., C.P.A.

    "Professional Standards"—By Robert H. Montgomery,  
C.P.A.

    "The Scope of the Profession of Accounting"—By F. A.  
Cleveland, Ph.D.

The articles by their titles evidence the keen sense of public responsibility that even at that early date constituted the fibre of our professional body. It continues to be our main strength.

The worth of these contributions to the first number of the *Journal* stands today unimpaired by the passage of time. A periodic rereading of these articles would serve to strengthen us for the problems of our times.



*The Journal of Accountancy* has been and continues to be outstanding in the field of periodic accountancy literature.

Notable gatherings of the profession took place throughout the years, events, each worthy of complete description. The International Congress of Accountants was held in St. Louis in 1904. Many friendships grew out of that meeting; it was the first meeting of our young profession which had the added flavor of distinguished representation from other countries. The memory of it still warms the hearts of those fortunate in having attended. Annual conventions were regularly held but war came and interrupted the international gatherings. The next meeting of international character was held in Amsterdam, Holland, in 1926. This, I believe, was the first meeting abroad attended by delegates from this country. The friendly feelings engendered by these international conferences resulted in more frequent like gatherings and the meeting at Amsterdam was quickly followed by a meeting in New York in 1929 and in London in 1933. The fiftieth anniversary meeting of the American Institute of Accountants was held in New York in 1937, and while not international in title, it was decidedly international in character and attendance. Again war intervened. We are happy to see here today our professional brethren from other lands and hope the day will soon arrive when we can again gather together from all parts of the world, benefit by the exchange of ideas and enjoy the companionship of our fellow practitioners from the world over.

These conventions or gatherings have been of inestimable benefit to the profession. Not only have they brought to us the finest accounting thinking as exemplified in the technical papers presented at these meetings and later printed and preserved as part of our accounting literature, but, of perhaps equal importance, they have led to the forming of friendships of lasting character and have opened our eyes to the fact that fellow practitioners here and abroad are really delightful fellows and have in them those qualities we most respect and admire.

An important contribution to the development of these friendships and understanding took place when the thoughtfulness and generosity of Elijah W. Sells made possible the founding of the "Accountants Club." Let us hope for the return of conditions which will permit of re-establishing that friendly gathering place.

These friendships have been not only a source of satisfaction and enjoyment but have served us well in the past and should be preserved as they will also serve in the future. It was our faith in the sincerity and honesty of members of both organizations that made

possible in 1936 the merger of the two national organizations into the one in which we enjoy fellowship today. The work of Durand W. Springer in gathering together certified public accountants from throughout the country into the American Society of Certified Public Accountants served the profession well, and his appreciation of the desirability of one national organization helped tremendously in accomplishing that objective.

My remarks have been sketchy and fragmentary. They do not constitute a history—even in skeleton form. But we have a history, a history of which to be proud; it should be brought together and preserved—it is well worth preserving. Its study would inspire and enlighten us and those who follow. In this connection I bring to your attention a report by the “Committee on History” in May of this year to the Council of the American Institute, containing the following recommendation:

Your committee is of the opinion that as soon as feasible it would be advisable for the Institute to employ some one to supervise the compilation of the historical material now on hand and which may become available later. The cooperation of the American Accounting Association, no doubt, could be secured in furthering this work. It might be possible also, for students in some of the colleges and universities to do research work with the encouragement and assistance of accountants, especially in states in which little has been accomplished heretofore in the assembling of historical data.

It is my belief that we all heartily endorse that recommendation.

Over the years no great changes have occurred in fundamental accounting and auditing concepts; great progress has been made in the technique of their application and presentation. It was, is and will be the purpose of Certified Public Accountants to speak the truth and we must resist to the fullest any attempt from whatever source which seeks to curb our right to so speak.

The Securities and Exchange Commission and other governmental bodies entrusted with the administration of regulatory laws likewise but seek the truth. Oft’ times truth is elusive. Honest differences arise as to what constitutes truth. We may differ as to the form or manner of its presentation. We may differ as to the adequacy of its presentation. But let us concentrate on the solution of those problems and not hinder our progress by devoting our efforts to the undue refinement of unessentials.

In seeking in the past guidance for the future I can do no better than to quote to you from an address by the President of the Institute

at the annual meeting and fiftieth anniversary celebration of The American Institute of Accountants, held in New York in October, 1937. I quote:

We shall retain our strength just as long as we retain our independence—no longer.

If anyone outside of the profession—governmental or private, client or friend—is stronger than we are and is able to tell us what to do, is able to influence a statement or a report against our best judgment, from that moment the profession will deteriorate. It is not so today.

and we can add with today's dating—It is not so today.

As long as by our character and by the application of skill and talent to the tasks entrusted to us we demonstrate that the profession rightly serves the public interest, our reputation will remain secure.

Today the New York State Society stands 5,100 strong—in complete harmony with our fellow accountants—ready and willing to contribute to the full of our capacity in collaboration with the American Institute of Accountants and its 11,000 members, in the furtherance of the nationwide interests of the profession.

In conclusion—let me direct your attention to a pamphlet published in 1942 entitled "Pioneers of Organized Public Accountancy in Pennsylvania." It was written by one of the founders of the Pennsylvania Association of Public Accountants, later organized into the Pennsylvania Institute of Certified Public Accountants. There appears on the title page of that pamphlet a quotation taken from an inscription on the Archives Building in Washington, D. C., which states:

The heritage of the past is the seed that brings forth the harvest of the future.

We have a precious heritage. Let us nurture it carefully.

## Epilogue—A Challenge

The closing paragraphs of Colonel Robert H. Montgomery's "Report of the President" to the American Institute of Accountants in 1937 express in clear and forceful terms a challenge to all professional accountants. No better framework for continued progress in the future can be presented than his words from that report which follow:

In all matters affecting principles and standards we will present a united front. I propose that we celebrate this occasion which marks the fiftieth anniversary of the bringing together of the public accountants of the United States by dedicating ourselves to a stern fight to protect our profession against all that may be detrimental to its high aims. Let us determine to maintain and increase the confidence in which we are held by the business public.

I think there is in governmental offices and in labor organizations, as well as in business, a field in which the independent public accountant alone can pass upon disputed financial issues without fear or favor and without political bias. We do not need to fight for the obvious precept that custodians of public funds, private property and trust estates should not audit themselves. It has been done, but with such disastrous results to the owners and beneficiaries that in due course it will be an unthinkable practice.

We cannot hope to make progress unless we *fight* for the ideals and standards which have come to us from the founders of the profession. There are a thousand obstacles to the attainment of any worthwhile good. Let's *fight* to maintain all that has come to us which is good and to eliminate everything inimical to progress.

Let's fight to raise the standards of the Institute in every way. Let's fight to suspend or expel any member who is guilty of conduct unworthy of a member.

Let's fight for a sane Federal income-tax law.

Let's fight any effort in any state to dilute or weaken the C. P. A. degree.

Let's fight to strengthen state laws and otherwise assist state societies.

Let's fight for sound business practices. Don't let's wait until unsound practices creep in, are reflected in balance-sheets and embarrass the accountants who are asked to certify to them.

Let's fight any tendency, private or governmental, to break down the independence of the certified public accountant by rules or regulations or business pressure.

Let's fight for honest accounting, clear financial statements and full disclosure of all essential facts.

Let's fight anyone who seeks the assistance of a certified public accountant in the issuance of any kind of misleading statement.

Let's fight anyone who thinks that one certified public accountant will supplant another who has done a good job.

Let's fight for easily understood accounting terms. Let's fight weasel words.

Let's fight bunk whenever and wherever it appears.



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