

1945

## Yearbook 1943-1944

American Institute of Accountants

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AMERICAN INSTITUTE OF ACCOUNTANTS YEARBOOK 1923-1924



# YEARBOOK

American Institute of Accountants

1943-1944

YEARBOOK  
American  
Institute of Accountants  
1943—1944



(Incorporated under the Laws of the District of Columbia)

American Institute of Accountants  
13 East 41st Street, New York 17, N. Y.



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## Introductory Note

FOR the first time, this edition of the American Institute of Accountants yearbook does not include the alphabetical and geographical lists of members and associates, which are being published separately.

This book contains reports of committees submitted to the council of the Institute at its spring meeting and at its meeting preceding the annual meeting of the Institute at St. Louis in October. Many of these committee reports reflect the continued war activities of the profession. Others deal with important technical and professional subjects.

The proceedings of the annual meeting and lists of officers, council and committee members, state society presidents and members of state accountancy boards, are also included in this volume.

Each member and associate of the Institute will receive a copy of this book without charge. Additional copies may be purchased at \$2.00 net, \$2.20 delivered in the United States.

JOHN L. CAREY, *Secretary*

13 East 41st Street, New York 17, N. Y.

December 1, 1944.

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 ANGEL E. MARICHAL, *secretary*, Box 3545, Santurce  
 WILLIAM A. WAYMOUTH, CPA, *treasurer*, Edificio "Padin," San Juan

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 EDWARD C. DALEY, CPA, *secretary*, 2400 Industrial Trust Bldg., Providence  
 ABRAHAM BLACKMAN, CPA, *treasurer*, 1209 Industrial Trust Bldg., Providence

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## STATE BOARD OF ACCOUNTANCY

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## REGISTRATION DIVISION

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 MISS RENA B. LOOMIS, *assistant director*, Department of Registration, 314 State Capitol, Salt Lake City

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 SETH A. DENSMORE, CPA, *secretary*, Burlington  
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 W. L. PRINCE, *educator*, University of Richmond, Richmond

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 S. CHARLES STEELE, CPA, P. O. Box 865, Morgantown

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 KARL AXT, CPA, *vice president*, 211 W. 19th St., Cheyenne  
 O. M. CORDLE, CPA, *secretary-treasurer*, 211 Con Roy Bldg., Casper

## VIRGIN ISLANDS BOARD OF EXAMINERS OF ACCOUNTANTS

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 LOUIS SHULTERBRANDT, *secretary*, Charlotte Amalie, St. Thomas  
 JORGE RODRIGUES, Charlotte Amalie, St. Thomas

AMERICAN  
INSTITUTE OF ACCOUNTANTS

Proceedings of the Annual Meeting Held at  
St. Louis, Mo.

October 17, 1944

The fifty-seventh annual meeting of the American Institute of Accountants convened at the Jefferson Hotel, St. Louis, Missouri, October 17, 1944, at 10.00 A. M., Victor H. Stempf, president of the Institute, presided.

J. Harvey O'Connell, president of the Missouri Society of Certified Public Accountants, extended a welcome to those present.

The minutes of the annual meeting held October 19, 1943, were approved as printed in the pamphlet "Officers, Council, and Committees and Admissions, since 1942."

The president read his report.\*

The chair extended greetings to officials of professional, governmental, and financial bodies who were present by invitation.

J. A. Phillips, vice president, presented the report of the council.\* Upon motion duly seconded, the meeting approved the recommendation of council that selection of the time and place of the 1945 annual meeting be referred to the executive committee with power.

On motion duly seconded the report of council and all acts of council during the year were approved.

Howard A. Withey summarized the report of the auditors.\* On motion duly seconded the report was received.

L. C. J. Yeager, chairman of the committee on by-laws, read the report\* of the committee, as presented to the membership in the official notice of the annual meeting. On motion duly seconded the following proposed amendments to the by-laws were approved for submission to the membership for mail vote:

Amend Article VII of the by-laws by eliminating Section 4 and changing the number of the present Section 5 to Section 4, and of the present Section 6 to Section 5.

\* Published elsewhere in this Yearbook.

Amend Article VIII, Section 3 by adding the following sentences:

"The council shall, at least three months prior to the annual meeting of the Institute, appoint certified public accountants to audit the accounts of the Institute and its affiliated organizations for the current fiscal year. The report of the auditors shall be submitted to the members of the Institute at the annual meeting and shall be published for the information of the membership."

Amend Article XI, Section 2 by deleting the words "and auditors" from the first and second sentences, and the words "or auditors" from the fourth sentence.

Amend Article XI, Section 3 by deleting the words "and auditors" therefrom.

Henry E. Mendes, chairman of the board of examiners, presented the Elijah Watt Sells awards to the following accountants who had received highest grades in the Institute's standard examination at the November, 1943, and May, 1944, sessions before cooperating state boards:

November, 1943:

First prize (gold medal)—Sergeant John N. Newland, Butte, Montana

Second prize (silver medal)—Robert Grady Murdoch, New York, N. Y.

May, 1944:

First prize (gold medal)—William Harmon Simmons, Tyler, Texas

Second prize (silver medal)—Thomas Bernard Donahue, St. Louis, Missouri

Mr. Mendes announced that honorable mention had been given the following:

November, 1943:

Elin Frances Sondergard, Boston, Massachusetts

Irving Richardson, Chicago, Illinois

Willis A. Leonhardi, (now serving in the United States Navy)

T. A. Waites, Jr., Columbia, South Carolina

May, 1944:

Maurice D. Atkin, Chicago, Illinois  
Theodore Thulstrup, Chicago, Illinois

Maurice E. Peloubet, chairman of the committee on annual awards, presented awards to the following members on behalf of the American Institute of Accountants:\*

George Oliver May, for his book *Financial Accounting*, an outstanding contribution to the literature of accounting.

Captain J. Harold Stewart, SC, USNR, for outstanding services to his country and to the accounting profession during the fiscal year ended August 31, 1944, in his former capacity as Executive Assistant to the Director of the Cost Inspection Service, Bureau of Supplies and Accounts, Navy Department of the United States of America, and more recently in his present post as Assistant in Charge of Accounting to the Director of Contract Settlement.

William A. Paton, for his article "Accounting Policies of the Federal Power Commission," published in *The Journal of Accountancy*, June, 1944, which is considered the most significant and valuable article on an accounting subject published in the fiscal year ended August 31, 1944.

George S. Olive, chairman, presented the report of the committee on nominations, proposing Samuel J. Broad, of New York, for president. It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of Mr. Broad as president. The motion carried, the ballot was cast, and Mr. Broad was declared duly elected. President Broad expressed his thanks for the honor conferred upon him, and at the request of the chairman assumed the chair.

Mr. Olive presented the following names offered by the nominating committee for vice presidents:

Rodney D. White, Washington  
Edward B. Wilcox, Illinois

A motion was made and seconded that the nominations be closed and that the secretary cast one ballot for the candidates named. The motion carried, the ballot was cast, and the members named were declared elected.

Mr. Olive presented the name of Maurice E. Peloubet, of New York, proposed by the

\* Mr. Peloubet's presentation address appears elsewhere in this Yearbook.

nominating committee for treasurer. A motion was made and seconded that the nominations be closed and that the secretary cast one ballot for the election of Mr. Peloubet as treasurer. The motion was carried, the ballot was cast, and Mr. Peloubet was declared elected.

Mr. Olive presented the following names proposed by the nominating committee for auditors:

F. Merrill Beatty, New York  
Henry A. Horne, New York

Upon motion duly seconded, the nominations were closed and the secretary was instructed to cast one ballot for the persons named. The motion was carried, the ballot was cast, and the members named above were declared elected.

Names of the following members, proposed by the nominating committee for members of council, were presented by the chairman of the nominating committee:

Oscar Moss, California  
James I. Keller, Jr., Florida  
William Jackson Carter, Georgia  
Roy Andreae, Illinois  
Jackson W. Smart, Illinois  
Edward S. Rittler, Louisiana  
J. Harold Stewart, Massachusetts  
Oscar R. Martin, Nebraska  
Theodore Krohn, New Jersey  
Karl K. Morris, Ohio  
Paul W. Fitzkee, Oklahoma  
I. D. Wood, Oregon  
John N. Aitken, Jr., Pennsylvania  
John H. Zebly, Jr., Pennsylvania  
James A. Rennie, Virginia  
Carl E. Dietze, Wisconsin

It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of those named. The motion was carried, the ballot was cast, and the members named were declared elected.

The chairman announced that the next order of business was election of five members of the committee on nominations for the current year. The following were nominated by Albert J. Watson, who stated that in accordance with the by-laws, the council had already elected Victor H. Stempf, of New York, and Ernest H. Fletcher, of Michigan, to serve on the nominating committee, the first named to act as temporary chairman until the committee elected a permanent chairman:

Thomas J. Dolan, Ohio  
 Thornton G. Douglas, California  
 William H. Goldberg, Colorado  
 Byron P. Harris, Georgia  
 Harvard L. Mann, Massachusetts

It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of those named. The motion was carried, the ballot was cast, and the members named were declared elected.

The chair introduced Fred Johnson, president of the Dominion Association of Chartered Accountants, who delivered an address on problems of the accounting profession in Canada.\*

Captain N. Loyall McLaren, chairman of the New York Division of the Navy Price Adjustment Board, was introduced by the chair, and delivered an address on "Government Pricing Policies."\*

The meeting adjourned sine die at 12:30 P. M.

#### TECHNICAL SESSIONS

Over 1,000 members of the Institute, accountants and guests who registered for the meeting, attended the following technical sessions (all papers presented have been published in "Termination and Taxes"—1944).

##### *Tuesday Oct. 17th:*

Chairman: Lincoln G. Kelly: Papers: "Selection of Accounting Personnel"; "Independence"; "Recommended Reforms in Governmental Accounting"; "The Legal and Accounting Professions Prepare To Meet Problems of Mutual Interest." Speakers: Warren W. Nissley, Lewis Lilly, Lloyd Morey, and William Charles.

Forum on "Historical vs. Earning Power Concept of the Income Statement." Chairman: Jackson W. Smart; speakers: Henry T. Chamberlain, Maurice E. Peloubet, Paul Grady; commentators: William W. Wernitz, Philip L. West, and speakers at the session.

\* Published in "Termination and Taxes"—1944 (papers presented at the 57th Annual Meeting).

##### *Wednesday Oct. 18th:*

Session on "War Contract Termination." Chairman, Donald M. Russell; speakers: Dundas Peacock, H. T. McAnly, Captain J. Harold Stewart, Maurice H. Stans, Colonel John W. McEachren, John B. Inglis; commentators: Lt. Col. F. F. Tahner, and members of the committee on termination of war contracts, American Institute of Accountants, and speakers at session.

##### *Thursday Oct. 19th:*

Session on "Federal Corporate Taxation." Chairman: George P. Ellis; speakers: Charles Melvoine, Harold M. Groves, Maurice Austin, Thomas J. Dolan, James J. Mahon, Lawrence O. Manley, Randolph E. Paul, Weston Vernon, Roy Blough, Harry E. Howell.

#### ANNUAL DINNER

More than 800 members and guests attended the fifty-seventh annual dinner which was held in the Gold Room of the Jefferson Hotel in the evening of Oct. 18th. Col. Robert H. Montgomery spoke at the dinner on the subject of "The International Congress of 1904,"\* and Samuel J. Broad, newly elected president of the Institute, delivered an address entitled, "The Profession Comes of Age."\* Victor H. Stempf, retiring president of the Institute, was honored during the evening as an outstanding alumnus of St. Louis University. Mr. Stempf was presented with a plaque by the Rev. Bernard W. Dempsey of the School of Commerce and Finance on behalf of the University.

No entertainment was provided, in view of the war.

The members attending the annual meeting expressed their thanks to the officers of the Missouri Society and the committee on meetings for the excellent arrangements which had been made for the annual meeting in spite of extraordinary wartime difficulties.

## ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS

**Meeting Held at Hotel Jefferson, St. Louis, Mo., Monday, October 16, 1944**

The annual meeting of the Association of Certified Public Accountant Examiners was held at the Hotel Jefferson, St. Louis, Mo., on Monday, October 16, 1944, at 12:30 p. m.

The Association members were luncheon guests of the board of examiners of the American Institute of Accountants, with Dick D. Quin of the Mississippi Board, and past president of the Association, presiding.

Following the luncheon, a general session of the Association was called to order by President Brooks Geoghegan. The following twenty-six boards were represented at the meeting by one or more delegates:—

Arkansas	Michigan
California	Minnesota
Colorado	Mississippi
Connecticut	Missouri
Florida	Montana
Georgia	New York
Illinois	North Carolina
Indiana	Oklahoma
Iowa	Tennessee
Kansas	Texas
Kentucky	Utah
Louisiana	Virginia
Massachusetts	American Institute

Two other state boards, Ohio and Pennsylvania, had sent representatives but one of these was prevented by illness from attending the meeting and the other had to attend another meeting being held at the same time.

The following papers were presented:—

- “Canadian Examinations” —W. A. McKague
- “The Restriction of Practice by a Regulatory Accountancy Law Would Strengthen the Profession” —J. William Hope
- “Restrictive Legislation and its Concomitants” —Lewis Lilly
- “Education as a Prerequisite for a C. P. A. Certificate” —Thomas W. Leland

“Practical Experience as a Prerequisite for a C. P. A. Certificate”

—George S. Olive

Following the presentation of the two papers on legislation, there was a general discussion of the subject from the floor led by John A. Peyroux of the Louisiana Board, and following the presentation of the other two papers, a general discussion was led by Robert P. Briggs of the Michigan Board.

The president presented for consideration by member boards a suggestion by Mr. Gale that in publishing the names of successful candidates a summary statement of the requirements be included in the announcement.

The secretary-treasurer reported that dues had been collected from the forty-eight state boards, the District of Columbia Board, the Alaska Board and the American Institute board of examiners. The cash balance in the treasury at October 1, 1944, was \$285.94. Details of the financial transactions are set forth in the report of the auditor.

The following officers were elected for the ensuing year:—

- Lewis Lilly—California—President
- T. Dwight Williams—Oklahoma—1st Vice President
- James I. Keller, Jr.—Florida—2nd Vice President
- Walter N. Dean—New York—Secretary-Treasurer

A vote of thanks was extended to the board of examiners of the American Institute for the luncheon.

A vote of thanks was extended to the speakers on the program for their excellent papers.

A vote of thanks was extended to the officers who had served the Association so well during the past year.

The meeting adjourned at 5:15 p. m.

WALTER N. DEAN, *Secretary*



## **APPENDIX A**

**Midyear Reports of Secretary, Board of Examiners  
and Committees**

## Report of the Secretary

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: A picture of the physical growth of the Institute following the merger in 1936 of the two national organizations which then existed may be provided by the following statistics:

	1937	1944
Membership as of May 1st.....	4,764	7,808
Circulation of <i>The Journal of Accountancy</i> as of May 1st..	10,549	21,633
Estimated consolidated income for the fiscal year.....	\$129,755	\$275,445

### BASIC ACTIVITIES

These figures, however, do not indicate the increased scope of activity. The older activities, which were in full swing before the merger, have been carried forward but have expanded. *The Journal of Accountancy* has been enlarged and altered. More publications are being issued and more work is being done on them. The board of examiners has spent more time and effort each year on the standard examination, which it is determined shall attain such a degree of excellence that every state in the Union will adopt it. The committee on ethics continues to refine and clarify the rules of conduct and to consider with care all complaints which are submitted to it. The library renders an invaluable continuous service. This year it will produce the Sixth Supplement to the *Accountants' Index*.

### NEW ACTIVITIES

In addition, much new work has been undertaken in the past seven years. One indication is the number of committees, which in 1936 were thirty-five and in 1944 were forty-six. The entire research program has been undertaken and developed within the past five years. The tax committee has undertaken a more extensive program following the employment last year of a full-time technical assistant. A regular, continuous public-relations program is an addition to the Institute's activities since the merger.

A major project originating after the merger has been cooperation with state

societies, which involved the creation and maintenance of the Advisory Council of State Society Presidents, the continuous transmittal of information to state society presidents, the establishment of regional conferences and attendance by Institute officers at state society meetings. During the war, regional conferences have been dropped due to transportation difficulties, but, as a substitute, wartime conferences have been arranged in various cities at which officers of the Institute and chairmen of its committees have delivered addresses covering subjects of immediate interest and importance. This year, all the officers and the chairman of the committee on federal taxation addressed audiences aggregating more than 2,500, in Pittsburgh, New Orleans, Houston, Tulsa, Kansas City, Omaha, and Minneapolis. In addition, the president of the Institute has spoken at meetings of state societies in St. Louis, Indianapolis, Chapel Hill, Newark, and Providence; the vice-presidents in Detroit, Tulsa, and St. Louis; and the secretary in Milwaukee, Madison, Wilmington, and Newark.

This year a brand-new project has been undertaken—a five-year research program on selection of accounting personnel, which will be described more fully by the committee in charge.

### WAR ACTIVITIES

The war has created many new problems for the accounting profession, to the solution of which the Institute has attempted to contribute. Special war activities related to contract termination and renegotiation, placement of accountants in the armed services and war agencies, manpower requirements, gasoline rationing, government financial-reporting forms, and similar matters, account for a substantial part of the present program. Keeping the membership informed of government requirements which affect their clients or themselves is in itself no small task. *The Journal of Accountancy* has attempted to cover all such matters, but, in addition, in order to get prompt information into the hands of the membership, special mailings have been undertaken in the current year, through which the following documents have been transmitted to members a few days after

official release: War Department Termination Accounting Manual for Fixed-Price Supply Contracts; Procurement Regulation No. 15, Termination of Contracts for the Convenience of the Government; pre-print of addresses at the annual meeting on war contract termination; letter from the president of the Institute to members and other certified public accountants, dated April 5, 1944, on war contract termination; uniform article for the termination of government fixed-price war supply contracts and related statement of principles for determination of costs, accompanying the Baruch report on termination; two letters to members, one of which was mailed to all other certified public accountants, with reference to legislation proposing a non-partisan commission to aid Congress in revision of the tax laws; letter from the acting Commissioner of Internal Revenue regarding extensions of time for filing tax returns; revised financial reporting Forms A and B issued by the Office of Price Administration; new reporting form issued by the Price Adjustment Boards in accordance with the Revenue Act of 1943, to be filed by companies subject to renegotiation; revision of Selective Service Local Board Memorandums No. 115 and No. 115B.

#### PUBLIC AFFAIRS

But over and above the continuation of the regular work undertaken years ago, and the addition of new projects and services to the regular program, it seems that a new element has been introduced into the Institute's work. This new element can be described best, perhaps, as increased participation in public affairs. Without its being generally realized, the Institute has gradually come to occupy the position of consultant to various bodies and persons who may be interested in accounting. The bankers, the Stock Exchange, and the Securities and Exchange Commission, have for years coöperated closely with Institute committees in the consideration of accounting and auditing questions. Other agencies of the government and other private organizations have come to do likewise. In the current fiscal year representatives of the Institute have appeared before a committee of the National Association of Railroad and Utilities Commissioners to express opinions on a proposed report on deprecia-

tion. A brief was filed on behalf of the Institute before the Supreme Court of the United States in a case involving a question of accounting principle. A Conference on Federal Government Accounting was held in December under the auspices of the Institute in coöperation with the Bureau of the Budget, the General Accounting Office, and the Treasury Department. The American Bar Association has offered the opportunity for closer relationship with the Institute through creation of a Joint Conference Group of Accountants and Lawyers, consisting of five representatives of each organization. In assuming leadership in the demand for tax simplification, and particularly for the creation of a non-partisan body of experts to advise Congress in this field, new friends have been made among private organizations interested in taxation and among many members of Congress.

#### RELATIONS WITH CONGRESS AND GOVERNMENT

The closer relationship with members and committees of the Congress is among the most significant recent developments. Representatives of the Institute in the past few months have testified before a subcommittee of the Senate Committee on Military Affairs and before the House Naval Affairs Committee on problems of war contract termination. Conferences have been held with Senators and Congressmen on problems related to the audit of government corporations, and recommendations of the Institute have been cited on the floor of the Senate and reproduced in the Congressional Record. Members of Congress have given the Institute the privilege of making specific recommendations on simplification of the individual income tax at an informal meeting of a committee of experts working directly under the House Ways and Means Committee.

The War Manpower Commission and Selective Service Headquarters in considering manpower problems, and the Office of Price Administration in considering gasoline rationing, have shown a greater appreciation of the services of the profession than was evident in the early days of the war. Rulings which seemed harsh in their application to public accountants have been modified at the Institute's request.

All this betokens greater effectiveness, wider recognition, and increased opportunity for service in the future.

#### STAFF

Wartime shortages of manpower and material, however, impair the opportunities. The council will hear a recommendation for increasing the flow of technical information to the membership, but if the recommendation is adopted its execution will depend on the ability to secure additional technical assistants. A committee will present a program for closer coordination of activities of the state and national organizations, but the program cannot be fully successful without additional competent staff assistants. The executive committee has approved a plan worked out by the committee on membership, which provides for a continuous effort to bring to the attention of every eligible certified public accountant the advantages of membership in the Institute. This program might speedily increase the membership by several thousand without any lowering of standards, but it cannot be carried out without competent clerical assistants under intelligent direction. *The Journal of Accountancy* could increase its subscription list considerably if sufficient paper were available to print the number of copies for which there is already a demand.

Up to the present time, by dint of strenuous effort, replacements have been secured for most of the members of the staff who have had to leave the Institute's service. Now, however, the headquarters office is confronted with the loss of two key men. H. T. Winton, assistant secretary, accepted a commission as Lieutenant (j.g.) in the United States Naval Reserve as of May 1, 1944. His departure leaves a gap which will be very difficult to fill. His seven years experience and keen interest in the work have enabled the staff to carry a substantially greater load of work than would have been possible otherwise. Re-

arrangement of personnel has been made under which Elizabeth Arliss, assistant to the secretary, will take over a large part of the work which had been conducted by Mr. Winton, and other functions will be assumed by Frank A. Gale, assistant secretary, and Susan Ranney, assistant to the treasurer. It is almost too much to expect, however, that a smaller number of trained persons can carry on the same volume of work which had occupied the full time and energy of a larger number.

It seems more than likely that George N. Farrand, research assistant for the past four years, will enter the armed forces within the next two months. He, too, will be very difficult to replace. He has cheerfully assumed heavy extra burdens imposed on the research department by war conditions. Besides carrying on his regular work for the committees on accounting and auditing procedure, Mr. Farrand has made himself a specialist in technical accounting and auditing requirements of war agencies in relation to renegotiation, termination, and other matters, and has rendered great assistance to the committees on war activities and to the editor of *The Journal of Accountancy*. Through his efforts, members of the Institute have received information on many important subjects much earlier than otherwise would have been possible.

Like many other organizations, the Institute seems faced with the paradox of increased opportunities for service but diminished facilities with which to serve. It must fight a rear-guard action to maintain its strength and to keep its opportunities alive, until the end of the war. Its future is bound up with that of the economic life of the country as a whole, and will be conditioned largely by the duration of the conflict which absorbs all our energies.

Respectfully submitted,

JOHN L. CAREY, *Secretary*

May 1, 1944

**Report of the Executive Committee**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since its election by the council, October 21, 1943, the executive committee has held four meetings: one in the evening of October 21st, the others December 16th, March 22nd, and May 7th. Complete copies of the minutes of each meeting except that of May 7th have been sent to all members of council. Many of the matters which have come before the executive committee will be dealt with at length in the reports of other committees. This report, therefore, is confined to reference to a few matters of major importance and a few questions which the executive committee particularly wishes to bring to the attention of council.

**TAX REFORM**

An extraordinary amount of work has been done by the committee on federal taxation and by the staff of the Institute to induce Congress, in accordance with the resolution adopted by the Institute at the annual meeting last October, to appoint a non-partisan body of experts to draft a simple revenue law expressing a permanent and consistent policy of federal taxation. At this time there seems an excellent prospect that something of this kind will be done. Many members of the Institute have supported the proposal actively, and the full cooperation of the American Bar Association has been secured. A by-product of this effort, of great value to the profession, is general public recognition that certified public accountants have taken a position of leadership in urging tax simplification.

The executive committee has not employed any additional staff assistants or made available any funds not provided in the regular budget for the purpose of carrying on its campaign for tax reform. It is believed that in a matter of such great importance, involving broad questions apart from accounting and auditing, the Institute is not called upon to do more than offer its suggestions as emphatically as possible through the means normally at its command.

**INDEPENDENCE**

The question of the independence of professional certified public accountants, which is vital to the profession, came to the forefront again in a release by the Securities and Exchange Commission summarizing opinions expressed by the Commission or its staff in twenty cases which had not previously been published. The executive committee did not object to the publication of the release, but did not concur with all the opinions summarized therein and instructed the appropriate committee to make the Institute's position clear in a letter to the chief accountant of the Securities and Exchange Commission, who had submitted a draft of the release for comment.

**FEDERAL GOVERNMENT AUDITS**

Closely related to the question of independence is the attitude of Congress and government agencies toward the certified public accountant. In hearings before a Senate committee, misunderstanding of the nature of an independent audit was evidenced in the course of debate on an appropriation for audit of the Tennessee Valley Authority by independent certified public accountants. The chairman of the Institute's committee on governmental accounting submitted a statement designed to correct that misunderstanding, which was reproduced in the Congressional Record.

Later a bill was introduced providing for audits of Reconstruction Finance Corporation by the General Accounting Office. The president of the Institute discussed this question informally with the Senator who introduced the bill, and was assured that there was no intention of precluding audits by certified public accountants in appropriate cases.

A Conference on Federal Government Accounting, sponsored by the Institute's committee on governmental accounting in cooperation with the General Accounting Office, the Bureau of the Budget, and the Treasury Department, was held in New York in December. The Conference developed a great deal of valuable information on auditing and accounting procedures of the federal government which afford a

basis for fruitful study. Since a wide sale of the proceedings could not be expected, the executive committee appropriated \$1,000 from the contingency fund to cover the cost of publishing the proceedings so that those interested might have them.

#### COOPERATION WITH BAR ASSOCIATIONS

At the recommendation of the committee on cooperation with bar associations, the executive committee adopted a resolution similar to a resolution already adopted by the house of delegates of the American Bar Association, authorizing creation of a Joint Conference Group of Lawyers and Accountants, to consist of five members of the Bar Association and five members of the American Institute of Accountants, for the purpose of considering matters of mutual interest. The first meeting of the conference group was held May 6th in Philadelphia. It is believed that this new channel of communication between the accounting and legal professions places cooperation between the two on an appropriate basis. The Joint Conference Group of Lawyers and Accountants also affords an opportunity for mutual consideration of problems of much broader interest than those which have hitherto been the subject of discussion at meetings of committees of the Institute and the Bar Association. Members of the legal and accounting professions often have to work together, and it seems desirable that their two national organizations should do likewise in a fully cooperative spirit.

#### ACCOUNTING AND AUDITING PROCEDURE

The executive committee suggested to the committee on accounting procedure, as well as the committee on auditing procedure, that for the information of members of the Institute the research director publish tentative interim studies on accounting and auditing problems of broad professional interest which were before the committees on accounting and auditing procedure for discussion but on which no final conclusions had been reached. It was the opinion of the executive committee that such interim studies should be supplemental to the present accounting research bulletins and statements on auditing procedure, which embody definite recommendations of those committees.

The chairmen of the Institute committees and the research director met with the executive committee to discuss the situation, and after discussion they undertook to draft a plan under which such interim supplemental studies might be released by the research director without being confused with official statements of the committees or taking their place. Such a plan has now been submitted to the executive committee and approved, with some modification, as follows:

1. The present procedure of the two committees with respect to Accounting Research Bulletins and Statements of Auditing Procedure should be continued as heretofore.
2. As an additional and separate activity of the Institute a series of memoranda should be initiated dealing with accounting and auditing questions. They are not to be issued as definitive pronouncements of the Institute but primarily as an educational activity of the Institute.
  - (a) Such memoranda should deal with subjects believed of current interest to the membership generally.
  - (b) The issuance of the memoranda to be prepared by the Research Department should be under the supervision of a subcommittee to be composed of members of the committees on Accounting Procedure and Auditing Procedure.
  - (c) Although the memoranda should discuss the various questions pro and con, stating the various aspects of the subject considered, they should not state any conclusions.
  - (d) In the first memorandum of the new series the plan of issuance should be outlined.

#### CONTRACT TERMINATION

The executive committee approved submission of a resolution to the council with respect to audits of data related to settlement of terminated war contracts. The resolution will be presented by the committee on war contract termination.

#### SELECTION OF PERSONNEL

Under authority of the council the executive committee appointed a special committee to consider the practicability of research for the purpose of developing measures of aptitude and achievement which might help to judge the qualifications of an individual for professional public

accounting practice. After careful investigation the special committee recommended that the project be undertaken, and be financed by voluntary subscriptions from members of the Institute. After careful consideration and much discussion the executive committee approved the recommendation. The project as outlined is expected to extend over a period of about five years at a total cost of about \$50,000. Subscriptions amounting to \$42,853.50 have already been received.

#### BRIEF FILED WITH SUPREME COURT

Under the authority of the council and the executive committee, a brief was filed on behalf of the Institute as *amicus curiae* with the Supreme Court of the United States in the case of *Northwestern Electric Company, et al. v. Federal Power Commission*. The Supreme Court's decision was not in accordance with the Institute's contentions, although reference was made to the Institute's argument in the Court's opinion.

#### UNITED STATES TAX COURT

A subcommittee of the executive committee is continuing its efforts to bring about a change in the rules of the United States Tax Court requiring written examination of certified public accountants who apply for admission to practice before the Court.

#### POSTWAR PROBLEMS

The executive committee authorized appointment of a committee on postwar problems and referred to it suggestions that plans be laid for refresher courses to be given accountants returning from the armed services after the war, and for reemployment of such accountants in the profession.

#### COMMITTEE ON SOCIAL SECURITY

The executive committee carefully reviewed recommendations submitted by the committee on social security which had originally been presented to the council last fall but had been referred back for further study. The executive committee approved the recommendations fully and authorized their publication.

#### 1944 ANNUAL MEETING

The executive committee, under authority vested in it by the annual meeting of the Institute, selected St. Louis as the place for the 1944 annual meeting and selected October 17, 18, and 19, 1944, as the dates for the general meetings.

#### RESULTS OF 1943 ANNUAL MEETING

The committee on meetings for the past year entered a financial report showing an excess of receipts over expenditures in conjunction with the 1943 annual meeting of \$3,377 which has been credited to the general fund.

#### LIABILITY OF ACCOUNTANTS IN GOVERNMENT SERVICE

After consideration of certain federal statutes under which liability might be imposed on professional practitioners in the employ of the federal government on a part-time or full-time basis while retaining partnerships in firms which assist clients in the presentation of claims against the government, the executive committee authorized appointment of a special committee to investigate the possibility of protection of members of the accounting profession who were serving the federal government as a patriotic duty in time of war.

#### COMPENSATION OF INSTITUTE'S AUDITORS

Members of the Institute elected as auditors have in the past served without compensation. A member who recently completed his term of service in this capacity suggested that, in view of the greatly increased scope of the Institute's affairs and the increasing volume of receipts and disbursements in the several funds, the task of auditing the accounts had become one of sufficient magnitude to justify compensation to those who performed it. After discussion the executive committee resolved to refer this matter to the council without recommendation.

#### SIXTH SUPPLEMENT ACCOUNTANTS' INDEX

The executive committee has authorized the publication of the Sixth Supplement to the *Accountants' Index*. It is expected to be published early next summer. More than 500 advance subscriptions have already been received.

## PAYMENTS FROM CONTINGENCY FUND

In accordance with authorization previously granted, the executive committee approved payment to a member of the Institute of \$1,800 to reimburse him for part of the legal expenses incurred in the trial of a case involving application of the Fair Labor Standards Act to employees of public accountants. The executive committee also approved payment from the contingency fund of \$2,623 to the Massachusetts Society of Certified Public Accountants, representing 50 per cent of the legal expenses incurred by the Massachusetts Society in filing a brief as friend of the court in a case in which the question at issue was whether the preparation of income-tax returns by an accountant constituted unauthorized practice of the law.

## MEMBERSHIP

The increase in membership continues at a highly satisfactory rate. Members and associates at May 1, 1944, were 7,808 in comparison with 7,137 at the beginning of the fiscal year. Deaths of 43 members and associates have been reported as follows:

*Members*

William F. Ackerson  
 Albert George L. Baines  
 J. Christian Baker  
 Otto Baumgartner  
 Albert Edward Baylis  
 James Peter Cornetet  
 Norman B. Chandler  
 James B. Creedon  
 C. Irving Dennett  
 Gilbert V. Egan  
 George D. Fish  
 Walter J. Goggin  
 Graham Robert Green  
 Oscar Goddard  
 W. Lowell Grinstead  
 George W. Hailer  
 Romney N. Hallman  
 William H. Hartman  
 William C. Heaton  
 J. Leon Hartsfield  
 Joseph H. Hummel  
 Henry W. Hunt  
 D. V. Johnston  
 P. H. Kelso  
 Elwin MacLeod

George H. Matthews  
 Marvin McCarty  
 John J. Monahan  
 L. J. Nolan  
 Frank L. Pollard  
 John F. Prinzing  
 Charles M. Riedell  
 John W. Robbins  
 Barney Robins  
 Harold S. Russell  
 Louis E. Smith  
 Reginald G. Snodgrass  
 Albert L. Swearingin  
 Samuel Tarter  
 George H. Weber  
 Chester L. Weberg

*Associates*

Everett W. Charters  
 Louis M. Comen

Twenty-four members have resigned in good standing, 21 have been dropped for non-payment of dues. Dues of 55 members were advanced by the executive committee, the total amount advanced being \$1,174.59 of which \$422.92 has been repaid.

The executive committee has approved recommendations of the committee on membership for a program of activity designed to bring to the attention of every eligible and desirable certified public accountant the benefits of membership in the Institute. Employment of two additional clerical assistants has been authorized to develop the records and conduct the correspondence which this program will require.

## STAFF ORGANIZATION

The committee approved as a long-range objective the statement submitted by the secretary outlining the staff organization necessary to meet the requirements of the Institute in the light of present and expected demands. The plan provides for the following executive positions: secretary and managing editor; assistant secretary; full-time research director with three assistants, one on accounting, one on auditing, one on taxes; full-time educational director; director of public information; controller; librarian; assistant editor; business manager; head of office service department. Most of these positions are now occupied. The principal additions



would be enlargement of the research staff, and addition of an educational director. The acceptance by H. T. Winton of a commission in the Navy, and the expected entrance of George N. Farrand, research assistant, into the armed forces, leaves vacancies in the present executive staff. The secretary has been authorized to attempt to find suitable persons who might assume some or all of the respon-

sibilities indicated in the plan outlined, who might be engaged on terms to be approved by the executive committee.

Respectfully submitted,

Victor H. Stempf, *President*

John L. Carey, *Secretary*

May 7, 1944

### Report of the Board of Examiners

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The board of examiners has held two meetings since the annual meeting in New York, and there have been several subcommittee meetings.

#### STATISTICS

Four hundred and twenty-seven applications were pending at the beginning of the fiscal year. Since that time, the board has received 591 applications (including 20 applications for advancement) and has recommended the admission of 760. Approximately 357 applications were pending on May 1, 1944. (The board has approved ninety-five applicants whose names will be submitted to council in May.)

In November, 1943, 1,689 candidates wrote the standard examination, and the Institute's examining staff graded the papers of 684 candidates. The following percentages show the proportion of the candidates who received passing grades of 75 points or more: Auditing, 64.5%; Commercial Law, 49.2%; Theory of Accounts, 67.3%; Accounting Practice, 9.8%.

#### EXAMINATIONS

There rests with the board of examiners the responsibility of preparing the standard examination which is now used by forty-seven state and territorial boards of accountancy in examining candidates for the C.P.A. certificate. The board held a three-day meeting in the fall, which was devoted to preparation of the standard examination in all subjects, and subcommittees of the board, charged with development of the papers in Theory of

Accounts, Commercial Law, Auditing, and Accounting Practice, have held several special meetings. Examination papers for the November, 1944, examination are nearing completion, and a stock pile of questions in all subjects is being developed.

The board has been concerned with planning examinations that will over the years touch upon the principal fields of accounting interest. Some state laws require that candidates for the C.P.A. certificate be examined in governmental accounting, and therefore it has been the practice in recent years to include a problem in governmental accounting in the standard examination. Because of the importance of federal taxation, the board has felt that there should be at least one tax question in the examination papers.

Studies have been made of the frequency in which various subjects have been dealt with in past examinations and although the board does not automatically project the pattern for the past into the future, the summary has proven of value in planning for the future.

The board of examiners gauges the examination to test candidates of senior grade. While the identity of no candidate is known to the board, there is no doubt that many candidates who sit for the standard examination have never had a single day's experience in a public accountant's office nor have they had accounting training. It is not surprising, therefore, to find that at the November, 1943, examination in Accounting Practice, less than 10% of the papers graded by the Institute received passing grade. Members of the profession in those states which do not require public accounting experience have frequently stated that they rely upon the quality of

the uniform examination to remedy the deficiency of their present law and to maintain the standard for the C.P.A. certificate within the state.

To ascertain the amount of time required to solve each problem and to check against inclusion of ambiguities in the questions, arrangements were made for eight certified public accountants to write the May papers under examination conditions, using advance printer's proofs.

Commencing with the May, 1944, examination, a wide-measure single-column-type page has been adopted, instead of the two-column type page, so as to avoid any possible confusion to the candidate.

Throughout the years, the board of examiners has striven to present an examination that will meet the needs of the profession in every state and maintain a high national standard. The board cooperates closely with the Association of Certified Public Accountant Examiners, of which it is a member. Progress is being made toward even wider adoption of the standard examination.

#### ADMISSIONS

One of the functions of the board is to pass upon the qualifications of applicants for admission to the Institute. Since the annual meeting, the board has recommended the admission of 760 applicants.

One of the more difficult problems confronting the board concerns applicants who have had no public accounting experi-

ence, who apply for admission as associates under Article II, Section 5(a) of the by-laws, which provides that applicants "shall have been in practice on their own account or in the employ of a practicing public accountant for not less than two years, or shall have had experience which in the opinion of the board of examiners is equivalent to two years' public accounting practice, and at the date of application shall be engaged in work related to accounting." A subcommittee of the board is making a study of all the factors that enter the problem of admitting as associates, applicants who have not had two years of public accounting experience. Upon consideration of the findings of the subcommittee, the board hopes to present to council at the annual meeting in St. Louis, a résumé of the factors involved in the problem and specific recommendations for its solution.

Respectfully submitted,

HENRY E. MENDES, *Chairman*  
 ROY ANDREAE  
 ROBERT P. BRIGGS  
 HAROLD R. CAFFYN  
 J. WILLIAM HOPE  
 KENNETH M. MONTGOMERY  
 RAYMOND E. NORTH  
 GEORGE E. PERRIN  
 NORMAN E. WEBSTER

May 1, 1944

#### Report of Committee of Professional Ethics

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The New York members of the committee on professional ethics have held several meetings with members of the Institute to discuss questions arising from matters referred to the committee. The only meeting of the full committee, since its election last October, was held just prior to the present session of council.

#### RULES OF PROFESSIONAL CONDUCT

At the May, 1943, meeting of council, your committee on professional ethics recommended an amendment to rule No.

10 of the Rules of Professional Conduct so as to prohibit all advertising of any kind, including publication of so-called cards except for specified announcements. This recommendation was approved by the council and was submitted to the membership at the annual meeting, and was voted upon favorably. The amendment was then submitted for mail ballot and was declared effective by the president of the Institute December 27, 1943. Numerous inquiries have been received by the committee as to the effect of the amended rule, as a result of which the committee issued the following interpretation, which was printed

in *The Journal of Accountancy* and *The Certified Public Accountant* for April, 1944:

"The committee on professional ethics has received a number of questions as to the effect of rule No. 10 of the Rules of Professional Conduct of the American Institute of Accountants, which was recently amended.

"This amendment of the rule was originally recommended by the Advisory Council of State Society Presidents. The council of the Institute approved the recommendation, and authorized submission of the amendment to the members of the Institute at the annual meeting in October, 1943. The members present at the meeting approved the amendment, whereupon it was submitted for a vote by mail ballot, and a majority of all the members of the Institute voted affirmatively, making the amended rule effective December 27, 1943.

"The rule as amended now reads as follows:

"(10) A member or an associate shall not advertise his professional attainments or services. The publication of what is technically known as a card is restricted to an announcement of the name, title (member of American Institute of Accountants, CPA, or other professional affiliation or designation), class of service, and address of the person or firm, issued in connection with the announcement of change of address or personnel of firm, and shall not exceed two columns in width and three inches in depth if appearing in a newspaper, and not exceed one-quarter of a page if appearing in a magazine, directory, or similar publication.

"The amendment consisted of eliminating from the earlier rule the provision permitting publication of 'cards' as a regular method of advertisement. The present rule permits the publication of 'cards,' but only for the specific purposes of announcing change of address or personnel of firm.

"The committee on professional ethics has already officially interpreted the phrase 'change of address' to include announcement of the opening of a new office (see *The Certified Public Accountant*, December, 1943, page 3).

"More recently, the committee has interpreted the rule in its application to listings of names and addresses of members and associates of the Institute in directories. The committee believes that the rule prohibits such listings in bold type, or in any other form which differentiates them from other names and addresses in the same list. This belief is based on the lan-

guage of the rule, which states that a member or an associate shall not advertise his professional attainments or services. In the committee's judgment, directory listings in special type or boxes are a form of display advertising intended to attract attention to the professional services of the firm or individual so listed.

"The committee believes that the amended rule does not prohibit members and associates from being listed in telephone and other general directories, but that the use of special type or other form of display to attract attention constitutes advertising, is undignified and unprofessional in character, and is detrimental to the interests of the profession as a whole."

#### ANALYSIS OF CASES

38-14. This case, arising from a court decision involving alleged conspiracy to defraud, has been reported to the council at numerous meetings. Information made available to the committee, and further questions resulting from this material have had consideration. Upon reconciliation of questions arising from the partnership relationship of the members of the Institute concerned in the matter, the committee believes it will be able to reach a conclusion in the case.

42-2. There have been no new developments in this case since the committee reported to the council at the October meeting. Civil proceedings have been instituted, and the committee is awaiting the official record of the case before formally considering the matter.

42-5. The committee has reported at four previous meetings of the council on this case, which involves a member who has been indicted by a Federal Grand Jury. In accordance with its usual policy in cases of this kind, the committee is deferring formal action in the matter until the court record may become available.

42-11. This case, reported to the council at its October meeting, involves allegations by a non-member of the Institute against an accounting firm, of which partners are members of the Institute, to the effect that said accounting firm had certified misleading financial statements. The committee received an explanation from the firm involved, and initiated an exhaustive study of the published annual reports of the corporation concerned. The study has been somewhat impeded by the illness of

the technical assistant to the committee, but it is expected that the results will soon be available, and the committee will be permitted to reach a conclusion in the matter in the very immediate future.

42-14. This case, which was referred to the committee by the Securities and Exchange Commission, will be reported upon separately to the council in a supplementary report.

43-3. The attention of the committee was drawn to a civil case in which a firm of accountants, of which a partner is a member of the Institute, was sued for alleged negligence. The committee considered an explanation from the partner who is a member of the Institute, and as a result thereof answers to further questions are now awaited before final disposition may be made of the case.

#### SUMMARY OF INQUIRIES AND RESPONSES

- Q. In 1941 I entered into partnership with another CPA. When we formed the partnership it was provided that upon the retirement of either of us, the one remaining in practice would purchase the clients of the other, and would be permitted to use the firm name for a period of five years. Is it permissible under the Institute's rules to continue practice under the firm name inasmuch as my former partner is now privately employed?
- A. We know of no reason why the old partnership name cannot be continued, provided the letterhead clearly indicates who the members of the firm are. If through the purchase of the clientele under your former partnership agreement the firm in effect becomes a sole proprietorship, of which you are the sole proprietor, there may be some question as to the propriety of your using the designation "Certified Public Accountants and Tax Consultants" under the firm name, since this implies that more than one or more persons are members of the partnership. This would not be permitted under the provisions of rule No. 1 of the Institute's rules, and may be an infringement of the rules of practice of the Treasury Department governing enrolled agents.
- Q. What would be the attitude of the Institute toward any member who knowingly violated rule No. 10 as recently amended?
- A. Any complaint of violation of rule No. 10 would be considered by the committee on professional ethics, and if it concluded that a violation of the rule had occurred it might either accept assurance from the member that he would discontinue such violation or report the matter for a hearing by the council sitting as a trial board.
- Q. Complaint has been filed with a state board of accountancy that I violated its code of ethics in sending out an appeal for funds for an eleemosynary institution to members of a fraternal organization, of which I am an officer, on my professional letterhead. Please advise if this constitutes a violation of the Institute's Rules of Professional Conduct.
- A. While the views of the Institute would not be binding on a state board or state society, it is not believed that the material submitted is directly prohibited by the Institute's rules. Presumably complaint was made on the ground that such distribution violated Rule No. 7, regarding indirect solicitation. It is also possible that use of your letterhead, showing your practice enrollments and type of service rendered by your firm, when sent to non-clients, might be regarded as advertising of professional services or attainments, which is prohibited by rule No. 10 of the Institute.
- Q. For several years we have served clients in a fairly distant city and have accomplished this by sending staff members from our office to that city and having them return to our office with their working papers for review by our principals. We now wish to open an office in that city with an accountant as manager, who is neither a CPA nor a member of the Institute. Our firm members will fully supervise all his activities as well as those of other staff assistants there, and all reports will be reviewed and signed at our main office. Please let us have your opinion as to the propriety of our proposed procedure.

- A. Rules No. 2 and No. 6, which might bear on this question, both clearly permit a member to allow another person to practice in the name of the member if such person is in the member's employ; and also permit a member to sign a report or express his opinion as a result of examination of financial statements if such statements have been examined by an employee of the member's firm.
- 
- Q. A firm of specialists in insurance investigations prepared reports on a western branch of an eastern insurance company. Would it be proper for a CPA to sign a report expressing his opinion on the financial statements of the company based on audit of the home office records by his own firm, and reliance on the report of the specialists on the western branch?
- A. In view of the fact that the firm of specialists in insurance investigation is not composed of certified public accountants and does not qualify under any of the exceptions permitted in rule No. 6 of the rules of the Institute, an expression of opinion by you as a result, to any material extent, of an examination by such specialists would be regarded as a violation of rule No. 6
- 
- Q. While I am not a CPA, I have been associated for the past seven years with a CPA who is now in the armed forces. There are several accounts which I consider "joint" accounts and I am anxious to preserve that relationship and interest for my former associate until he returns to practice. While the letterhead is joint, I wish to set forth distinctly that the certification and responsibility for the audit are mine. May the certificate state "We have audited . . ." and bear typed names of myself, as well as my associate as a CPA, and be signed by me with the title "Public Accountant and Auditor"?
- A. The use of "I" or "we" by a single practitioner in expressing his opinion is of little importance or significance. The report of audit should bear only your signature as "Public Accountant and Auditor."
- 
- Q. Is it permissible for a member to run an occasional card, giving his name, address, and type of service, in a national trade publication, and also in the classified section of an international newspaper?
- A. Under rule No. 10 as recently amended, this would be considered a violation of the Rules of Professional Conduct.
- 
- Q. Will you please advise whether the standing of a member of the Institute is affected by his filing a voluntary petition in bankruptcy?
- A. The mere fact of filing a voluntary petition in bankruptcy by a member would not be regarded as cause for complaint. In an individual case, however, the circumstances which culminated in a bankruptcy petition might require investigation to determine whether or not they indicated conduct discreditable to the profession within the meaning of the Institute's by-laws.
- 
- Q. Are there any restrictions which would prevent a certified public accountant, who is not a lawyer, from associating with a lawyer who is not a certified public accountant, for the purpose of practicing as tax consultants? Specifically, could they (1) practice independently, using the same office; (2) hire each other; (3) form a partnership?
- A. (1) We know of nothing to prevent a lawyer and an accountant practicing independently from using the same office. The letterheads, lettering on office doors, and building directory should avoid any indication that they were associated in their practice. (2) We know of no reason why, in independent practice, one should not retain the other. However, fee splitting is not permitted under Institute rule No. 3, nor under the Canons of Ethics of the Bar Association. (3) The advisability of partnership would depend to some extent on the nature of the practice to be carried on. Institute rule No. 15 does not prohibit a member from entering into partnership with a member of another profession but provides that in both capacities he must observe the by-laws and rules of professional conduct of the Institute.
-

Q. Do the rules of professional conduct of the Institute prohibit an accountant from serving as a director of a corporate client if his stock ownership is not substantial in proportion either to his own estate or the total stock of the corporation?

A. While the rules of professional conduct do not specifically forbid simultaneous service as auditor and director so long as the auditor holds no substantial financial interest in the corporate client, the committee is unanimous in its belief that it is unwise for an independent auditor to serve also as a member of the board of directors of the corporate client. The rules of the Securities and Exchange Commission do provide that an auditor will not be considered independent if he is an officer or director of a corporate client.

Q. I am entering into partnership with another certified public accountant. We are both associate members of the Institute. May we carry on our letterhead the statement "Members of the American Institute of Accountants"?

A. Since you are both associates, the description used should be "Associates of American Institute of Accountants" (see rule No. 1).

Q. I am employed by an accounting firm but I wish to find a new job. Is there any rule of ethics which will prevent me from communicating with other accounting firms to seek a position?

A. Rule No. 8 restricts the extent to which a prospective employer may offer employment to an employee of a fellow practitioner but does not restrict the extent to which an employee may seek employment elsewhere. It would, however, be desirable to notify your present employer of your intention, in order to avoid embarrassment to a prospective employer who might consider engaging you.

Q. With regard to existing and expected partners in my firm, I would like to

use the name "— and Associates." Is this term good form for accounting firms?

A. There is no rule of the Institute which would prohibit the use of the term "and Associates" in your firm name. Some members of the Institute have adopted that designation and no objection has been raised to its use by certified public accountants.

Q. I am in partnership with two other certified public accountants who are not members of the Institute. Could you suggest a suitable form or method whereby I could sign audit reports indicating my membership in the Institute?

A. Rule No. 1 is the only rule bearing on this question. You could sign your reports as an individual, under the firm name, showing your own membership in the American Institute of Accountants.

Q. We are the publishers of legal directories. Please advise us whether advertisements giving the firm name, address, phone number, and member of the American Institute of Accountants, under the general heading of "Certified Public Accountants" is permitted under the rules of the Institute.

A. Rule No. 10 prohibits advertising of any kind except for the specific purpose of announcing changes in address or personnel of firm. The fact that a number of accountants advertise in a single page or section of a directory does not alter the basic fact that each individual is purchasing space in which his name, professional designation and address appears, and which constitutes advertising under the rules of the Institute.

Respectfully submitted,

COMMITTEE ON PROFESSIONAL ETHICS  
 JOSEPH J. KLEIN, *Chairman*  
 FREDERICK H. HURDMAN  
 HOMER N. SWEET  
 EDWIN H. WAGNER  
 ROSS T. WARNER

May 7, 1944

**Report of the Committee on Budget and Finance**

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on budget and finance presents herewith a report of the revenue and expenditures of the American Institute of Accountants and its several departments and subsidiary companies for the period from September 1, 1943, to March 31, 1944, and, as is customary at this time, submits a revised budget for the fiscal year ending August 31, 1944. Attached hereto are a consolidated statement of revenues and expenditures, followed by separate statements for the General Fund, Endowment Fund, Foundation, and Publishing Company. Comments in this report refer to the more important changes as shown in the consolidated statement.

The revised budget shows a total excess of income over expenditures of \$1,480, to be credited to the contingency fund. This is an improvement of \$1,005 as compared with the original budget.

The principal increases in revenue are: dues and application fees because of increased membership, \$2,700; improvement in the operations of the Publishing Company, \$3,735; income from investments, \$1,265; excess of receipts over expenditures for the last annual meeting of the Institute, \$3,377; and sales of Institute bulletins and pamphlets, \$2,043.

The improvement in the operations of the Publishing Company is due to increased subscriptions and advertising, which is partially offset by increased costs, so that the net deficit originally estimated as \$4,335 is now reduced to a deficit of \$600.

The additional revenue from sales of Institute bulletins and pamphlets paid for by the general fund represents in part returns from expenditures for such publications incurred in the previous year or years. The revised budget includes an additional appropriation of \$3,500 for increased special reports to members. Some revenue can undoubtedly be expected in the current or succeeding fiscal year from sales of such publications, but no such revenue is included in the present revised budget.

The budget for expenditures in the operation of the library is practically un-

changed, but the increased revenue from investments of the Foundation, all of which is contributed to the library, and of the Endowment Fund, which is used for operation of the library, results in a decrease of \$1,110 in the deficit from library operations, leaving a balance of \$6,565 to be met from the General Fund.

While there is an increase of \$1,000 in the budget for fees receivable from state boards for certified public accountant examinations, this increase is more than offset by an increase of \$2,930 in fees paid for preparation and examination of papers. The total services and expenses of the board of examiners are budgeted at \$22,350, which is slightly more than double the fees receivable from the state boards. If the board of examiners is credited with all the application fees, estimated as \$1,700, the net costs of operation are nearly \$10,000, without including in such costs any administrative or clerical services and expenses of the Institute office.

The principal increases in expenditures are: salaries and fees, \$7,080; administrative expenses, \$2,160; traveling expenses, \$2,000; special reports to members, already mentioned, \$3,500; expenses of council and executive committee, \$1,050; and general expenses, \$900. There is a reduction of \$1,000 in the cost of the Yearbook, due to its preparation in less complete and expensive form.

The increases in salaries and fees are: \$2,930 for the board of examiners, as already mentioned; \$860 for the research staff; and \$3,290 for additional clerical service, of which \$1,150 is in the Institute office and the balance of \$2,140 in the Publishing Company.

The increase in administrative expenses is due to increased rates of postage, taxes on telephone calls, and increased costs of miscellaneous supplies.

Traveling expenses are increased to cover extra trips of the president, the secretary, and others, principally the contemplated trip of the president and the secretary to the west coast.

The increase in the budgeted allowance for expenses of the council and executive committee are principally in connection with meetings. The increase in general

expenses is principally for public relations reprints and two special conferences, one on governmental accounting and the other with the National Association of Railroad and Utilities Commissioners.

In addition to the regular budget, the council approved an appropriation of \$5,000 from the contingency fund, to be expended only on the authority of the executive committee for extraordinary expenses for which no provision had been made in the budget. The executive committee has approved expenditures charged to this appropriation of \$2,622.66 and \$1,000. The former is a payment to the Massachusetts Society of Certified Public Accountants, representing one-half of the legal fees in connection with a suit brought by the state bar association against certain individuals that had prepared income-tax returns, which case decided the important point that preparation of such returns by accountants and others was not unauthorized practice of the law. The second appropriation covers the cost of printing the proceedings of the conference on federal government accounting. The total

cost will be within the \$1,000 appropriated. Some sales of these proceedings have already been made, and it is expected that there will be a recovery of part of the cost.

The United States Trust Company has continued to advise the committee on the investment program. Since August 31, 1943, the only changes of investments have been the purchase of United States Treasury bonds—\$5,000 for the Benevolent Fund and \$75,000 for the general and contingency funds. A substantial part of the latter represents temporary investment of cash received from dues. Since March 31, 1944, \$10,000 of this total has been sold and additional amounts will be sold as cash is needed for current operations.

The committee requests that the several revised budgets submitted herewith be adopted.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*  
GEORGE D. BAILEY  
SAMUEL J. BROAD

May 5, 1944



AMERICAN INSTITUTE OF ACCOUNTANTS  
AMERICAN INSTITUTE PUBLISHING CO., INC.  
REVISED, CONSOLIDATED AND SUMMARIZED BUDGET—1943-1944

	Original Budget 1943-1944	Actual Sept. 1, 1943 to Mar. 31, 1944	Revised Budget 1943-1944
<i>Revenue Estimated:</i>			
Dues.....	\$150,000	\$151,385	\$152,500
Income from <i>The Journal of Accountancy</i> .....	68,000	45,017	76,575
Income from sales of books.....	8,500	5,545	8,500
From investments.....	11,435	7,091	12,700
Fees from state boards.....	10,000	6,174	11,000
Application fees.....	1,500	1,290	1,700
Miscellaneous.....	7,050	10,106	12,470
Total income.....	<u>\$256,485</u>	<u>\$226,608</u>	<u>\$275,445</u>
<i>Expenditures To Be Appropriated:</i>			
Salaries and fees for professional services:			
Secretary and managing editor.....	\$ 14,000	\$ 7,940	\$ 13,690
General Institute administration.....	19,200	11,255	19,400
Editorial, advertising and promotion.....	14,640	8,385	14,640
Research staff.....	17,140	10,216	18,000
Library staff.....	9,300	5,472	9,400
Board of examiners.....	16,070	10,043	19,000
Accounting, purchasing and office services.....	31,200	18,753	34,500
	<u>\$121,550</u>	<u>\$ 72,064</u>	<u>\$128,630</u>
Honoraria.....	\$ 5,000	\$ 2,916	\$ 5,000
American Institute pension fund.....	3,810	—	3,810
Social security taxes.....	3,965	855	3,490
Legal fees and expenses.....	6,300	4,004	6,525
Administrative expenses:			
Stationery and printing.....	\$ 2,585	\$ 1,912	\$ 3,010
Postage and express.....	10,370	6,475	11,620
Telephone and telegraph.....	3,630	2,279	4,050
Rent.....	16,500	9,333	15,750
Electricity.....	2,000	1,166	2,000
Insurance and taxes.....	1,095	272	1,085
Supplies and equipment.....	3,150	2,752	3,975
Building expenses.....	1,320	964	1,320
	<u>\$ 40,650</u>	<u>\$ 25,153</u>	<u>\$ 42,810</u>
Traveling expenses:			
President.....	\$ 1,000	\$ 136	\$ 1,500
Council.....	3,000	75	3,000
Secretary.....	}	1,250	2,350
Public relations.....	}	554	750
Others.....	2,000	291	400
	<u>\$ 6,000</u>	<u>\$ 2,306</u>	<u>\$ 8,000</u>
Publications:			
Direct cost of <i>The Journal of Accountancy</i> .....	\$ 36,120	\$ 21,949	\$ 39,035
Advertising and promotion.....	2,000	755	1,500
Direct cost of books.....	4,300	2,456	4,300
Yearbook.....	4,500	3,462	3,500
Special reports to members.....	6,500	7,069	10,000
	<u>\$ 53,420</u>	<u>\$ 35,691</u>	<u>\$ 58,335</u>
Library books and magazines.....	\$ 3,300	\$ 1,874	\$ 3,300
Legislative and newsclipping services.....	625	271	625
Board of examiners' expenses.....	3,350	2,306	3,350
Annual meeting expenses.....	2,000	1,872	2,100
Council and executive committee expenses..	2,200	1,250	3,250
General expenses.....	3,840	3,205	4,740
Total expenditures.....	<u>\$256,010</u>	<u>\$153,767</u>	<u>\$273,965</u>
Contingency fund.....	475		1,480
	<u>\$256,485</u>		<u>\$275,445</u>

	Original Budget 1943-1944	Actual Sept. 1, 1943 to Mar. 31, 1944	Revised Budget 1943-1944
<b>GENERAL FUND</b>			
<i>Revenue, Estimated:</i>			
Dues.....	\$150,000	\$151,385	\$152,500
From investments.....	300	518	600
Fees from state boards.....	10,000	6,174	11,000
Application fees.....	1,500	1,290	1,700
Miscellaneous.....	7,000	10,036	12,400
Total income.....	<u>\$168,800</u>	<u>\$169,403</u>	<u>\$178,200</u>
<i>Expenditures To Be Appropriated:</i>			
Salaries and fees for professional services:			
Secretary.....	\$ 7,500	\$ 4,375	\$ 7,500
General Institute administration.....	19,200	11,255	19,400
Research staff.....	17,140	10,216	18,000
Board of examiners.....	16,070	10,043	19,000
Accounting, purchasing and office services.....	16,840	9,707	18,000
	<u>\$ 76,750</u>	<u>\$ 45,596</u>	<u>\$ 81,900</u>
Honoraria.....	\$ 2,500	\$ 1,458	\$ 2,500
American Institute pension fund.....	2,510	—	2,510
Social security taxes.....	2,160	446	1,900
Legal fees and expenses.....	4,300	2,837	4,525
Administrative expenses:			
Stationery and printing.....	\$ 2,125	\$ 1,621	\$ 2,500
Postage and express.....	4,150	2,941	5,000
Telephone and telegraph.....	2,500	1,561	2,800
Rent.....	6,050	3,422	5,775
Electricity.....	2,000	1,166	2,000
Insurance and taxes.....	500	142	500
Supplies and equipment.....	2,075	1,748	2,500
Building expenses.....	1,320	964	1,320
	<u>\$ 20,720</u>	<u>\$ 13,565</u>	<u>\$ 22,395</u>
Traveling expenses:			
President.....	\$ 1,000	\$ 136	\$ 1,500
Council.....	3,000	75	3,000
Secretary.....		1,250	2,350
Public Relations.....		554	750
Others.....	2,000	291	400
	<u>\$ 6,000</u>	<u>\$ 2,306</u>	<u>\$ 8,000</u>
Publications:			
Special reports to members.....	\$ 6,500	\$ 7,069	\$ 10,000
Yearbook.....	4,500	3,462	3,500
<i>The Journal of Accountancy</i> subscriptions.....	19,500	18,739	19,500
	<u>\$ 30,500</u>	<u>\$ 29,270</u>	<u>\$ 33,000</u>
Legislative and newsclipping services.....			
Board of examiners' expenses.....	\$ 3,350	\$ 2,306	\$ 3,350
Annual meeting expenses.....	2,000	1,872	2,100
Council and executive committee expenses.....	2,200	1,250	3,250
General expenses.....	2,700	2,468	3,500
Total expenditures.....	<u>\$156,315</u>	<u>\$103,645</u>	<u>\$169,555</u>
Add:			
Estimated deficit of:			
Endowment fund.....	7,675	4,001	6,565
American Institute Publishing Co., Inc.....	4,335	3,150 <sup>1</sup>	600
	<u>\$168,325</u>	<u>\$104,496</u>	<u>\$176,720</u>
Contingency fund.....	475		1,480
	<u>\$168,800</u>		<u>\$178,200</u>

<sup>1</sup> Profit.

	Original Budget 1943-1944	Actual Sept. 1, 1943 to Mar. 31, 1944	Revised Budget 1943-1944
ENDOWMENT FUND			
<i>Revenue, Estimated:</i>			
From investments.....	\$ 8,500	\$ 4,956	\$ 9,150
Contribution for library from the Foundation.....	2,425	1,469	2,740
Miscellaneous.....	50	70	70
Total income.....	<u>\$10,975</u>	<u>\$ 6,495</u>	<u>\$11,960</u>
<i>Expenditures To Be Appropriated:</i>			
Salaries of library staff.....	\$ 9,300	\$ 5,472	\$ 9,400
Social security taxes.....	400	95	340
Administrative expenses:			
Stationery and printing.....	\$ 50	\$ 21	\$ 50
Postage and express.....	120	69	120
Telephone and telegraph.....	155	98	200
Rent.....	4,400	2,489	4,200
Insurance.....	210	—	200
Supplies and equipment.....	275	137	275
	<u>\$ 5,210</u>	<u>\$ 2,814</u>	<u>\$ 5,045</u>
Library books and magazines.....	\$ 3,300	\$ 1,874	\$ 3,300
General expenses.....	440	241	440
Total expenditures.....	<u>\$18,650</u>	<u>\$10,496</u>	<u>\$18,525</u>
Estimated excess of expenditures to be absorbed by General Fund.....	<u>7,675</u>	<u>4,001</u>	<u>6,565</u>
	<u>\$10,975</u>	<u>\$ 6,495</u>	<u>\$11,960</u>

## AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

	Original Budget 1943-1944	Actual Sept. 1, 1943 to Mar. 31, 1944	Revised Budget 1943-1944
<i>Revenue, Estimated:</i>			
From investments.....	\$2,635	\$1,617	\$2,950
Total income.....	<u>\$2,635</u>	<u>\$1,167</u>	<u>\$2,950</u>
<i>Expenditures To Be Appropriated:</i>			
Contributions to endowment fund—library.....	\$2,425	\$1,469	\$2,740
Stationery and printing.....	10	—	10
General expenses.....	200	148	200
Total expenditures.....	<u>\$2,635</u>	<u>\$1,617</u>	<u>\$2,950</u>

TO THE DIRECTORS OF THE AMERICAN INSTITUTE PUBLISHING CO., INC.:

GENTLEMEN: The committee on budget and finance of the American Institute of Accountants submits herewith a revised budget for your corporation for the year ending August 31, 1944:

AMERICAN INSTITUTE PUBLISHING CO., INC.

	Original Budget 1943-1944	Actual Sept. 1, 1943 to Mar. 31, 1944	Revised Budget 1943-1944
Revenue, Estimated:			
Income from <i>The Journal of Accountancy</i> , subscriptions earned, advertising, sales of single copies.....	\$ 87,500	\$55,822	\$ 96,075
Income from sales of books.....	8,500	5,545	8,500
Total income.....	<u>\$ 96,000</u>	<u>\$61,367</u>	<u>\$104,575</u>
Expenditures To Be Appropriated:			
Salaries and fees for professional services:			
Secretary and managing editor.....	\$ 6,500	\$ 3,565	\$ 6,190
Editorial, advertising and circulation.....	14,640	8,385	14,640
Accounting, purchasing and office services.....	14,360	9,046	16,500
	<u>\$ 35,500</u>	<u>\$20,996</u>	<u>\$ 37,330</u>
Honoraria.....	\$ 2,500	\$ 1,458	\$ 2,500
American Institute pension fund.....	1,300	—	1,300
Social security taxes.....	1,405	314	1,250
Legal fees.....	2,000	1,167	2,000
Administrative expenses:			
Stationery and printing.....	\$ 400	\$ 270	\$ 450
Postage and express.....	6,100	3,465	6,500
Telephone and telegraph.....	975	620	1,050
Rent.....	6,050	3,422	5,775
Insurance and taxes.....	385	130	385
Supplies and equipment.....	800	867	1,200
	<u>\$ 14,710</u>	<u>\$ 8,774</u>	<u>\$ 15,360</u>
Publications:			
Direct cost of <i>The Journal of Accountancy</i> .....	\$ 36,120	\$21,949	\$ 39,035
Advertising and promotion.....	2,000	755	1,500
Direct cost of books.....	4,300	2,456	4,300
	<u>\$ 42,420</u>	<u>\$25,160</u>	<u>\$ 44,835</u>
General expenses.....	\$ 500	\$ 348	\$ 600
Total expenditures.....	<u>\$100,335</u>	<u>\$58,217</u>	<u>\$105,175</u>
Excess of expenditures over income to be absorbed by General Fund.....	4,335	3,150 <sup>1</sup>	600
	<u>\$ 96,000</u>	<u>\$61,367</u>	<u>\$104,575</u>

<sup>1</sup> Profit.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*  
 GEORGE D. BAILEY  
 SAMUEL J. BROAD

May 5, 1944

### Report of the Committee on Accounting Procedure

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since its organization in 1939, your committee on accounting procedure has issued sixteen accounting research bulletins. The response to these bulletins within and without the profession has been uniformly favorable and your committee has been gratified to observe that its promulgations have become an important part of a body of "generally accepted accounting principles."

In addition to these bulletins your committee has considered a number of matters as to which no pronouncement has been made. As to some of these matters it is apparent that further discussion and thought are necessary by the committee and the profession before bulletins can be issued.

At the instance of the executive committee the chairman of your committee, the chairman of the committee on auditing procedure and the director of research considered proposals for extending the work of the Institute through stimulating and facilitating the study by its members of controversial matters, in the field of accounting and auditing, largely by an expansion of the activities of the research department. A joint recommendation has been made to the executive committee that the activities of the research department in this respect be placed under the immediate direction of a new committee, so that the activities will be independent of the procedure under which research bulletins and statements on auditing procedure are issued. The executive committee now has the matter under consideration and will doubtless in its report make recommendations as to the conduct of this activity.

#### DEPRECIATION

Since the submission of your committee's report in October, 1943, a report of your committee on terminology on the subject of depreciation was issued as Accounting Research Bulletin No. 20. In addition, your committee considered a tentative statement on the subject by the committee on depreciation of the National Association of Railroad and Utilities Commissioners, and at the invitation of that committee a letter,

dated January 28, 1944, signed by the chairman and approved by your committee, was addressed to the NARUC committee, commenting on its report and making suggestions for its revision. Two members of your committee also appeared before the NARUC committee at its conference held on February 2, 1944, and expressed their views on the matter.

Your committee's letter dealt mainly with two points, the definition of depreciation and retroactive adjustments. That part of the letter which dealt with definitions is discussed in the report of the committee on terminology being submitted at this time. It is gratifying to note that the equities of the case in regard to retroactive adjustments, to which this committee drew attention, are receiving recognition. It is also gratifying to observe that there is a growing acceptance of the Institute's view that depreciation accounting is a process of allocation, not of measurement of exhaustion of value.

The letter of January 28th was reprinted in *The Journal of Accountancy* and distributed to the membership as a separate document. A substantial supply of copies of this communication was made available for general distribution and rapidly absorbed. Your committee believes that it forms a useful contribution to the discussion of a subject of great public importance.

#### RENEGOTIATION

After a year's experience with the renegotiation law your committee found it advisable to issue a further bulletin on the subject as a supplement to Accounting Research Bulletin No. 15. When that bulletin was issued there was little experience available to serve as a guide for the creation of reserves for possible renegotiation refunds, and the committee's emphasis was therefore placed upon disclosure. The developments during the year 1943 were such that the committee deemed it advisable to require a reserve on the basis of past experience unless the facts were such as to make such a reserve impractical or misleading. The supplement was issued in December, 1943, as Accounting Research Bulletin No. 21 and has been favorably received.

### INCOME TAXES

Since the time of your committee's last report another subcommittee was appointed to deal with the difficult subject of income taxes in the financial statements. The subcommittee prepared a draft bulletin, but your committee has not as yet reached an agreement thereon. A discussion of the various views expressed as to this problem may form the subject of a research memorandum which will be issued under the plan discussed above.

### SURPLUS

Your committee's study of surplus has continued and there have been several important developments in the presentation and classification of surplus in financial statements which indicate the desirability of a pronouncement on this subject. It appears, however, that the subject may be one requiring further discussion and thought by the profession and if a bulletin is not issued it may be desirable to make the matter the subject of a published research memorandum.

### REDEMPTION OF PREFERRED STOCK

As indicated in prior reports, your committee has submitted its views to the Securities and Exchange Commission on its Accounting Series Release No. 45, dealing with the treatment of premiums paid on the redemption of preferred stock. The matter is now pending before the Commission. The subject matter comes within the general area of the surplus problem and should be dealt with in connection with the committee's study of this subject, as set forth above. Your committee believes however, that the issuance of Accounting Series Release No. 45 may make it necessary for the committee to issue a research bulletin prior to the completion of the surplus study.

### COST AND VALUE

An article on this subject by the director of research was published in the March, 1944, issue of *The Journal*. Since your committee had formulated no conclusions in the matter the purpose of the article was to stimulate discussion and comment. In furtherance of this objective it may be advisable to deal further with this subject under the new procedure, to be worked out

by the executive committee, to which reference was made above.

### NORTHWESTERN ELECTRIC COMPANY CASE

Under authority of the executive committee the Institute filed a brief as amicus curiae of the Supreme Court in the above matter. In its decision the Court took cognizance of the Institute's brief, but upheld the order of the Federal Power Commission. Your committee feels that the decision of the Supreme Court is indicative of the failure of legal and accounting minds to meet on a matter of common interest. Despite this disagreement, the proceedings served to emphasize the social significance of accounting. It is believed, therefore, that the Institute's effort was worth while and that the policy of intervening in cases involving important accounting matters should be continued.

### TERMINATION OF WAR CONTRACTS

Governmental policies in connection with the termination of war contracts will have a profound effect on our economy, and the committee on termination of war contracts, on which this committee is represented, has indicated its alertness to the importance of settlements on a sound accounting basis. At the same time, your committee on accounting procedure is considering the advisability of issuing a pronouncement dealing with the effects of terminated war contracts on financial statements.

### WRITE-OFF OF INTANGIBLES

During the past year the Securities and Exchange Commission has adopted a policy of encouraging the writing off of intangibles. The chief accountant has indicated to your committee that the Commission may eventually issue an accounting release on the subject and he has suggested that your committee will be given an opportunity to discuss the matter prior to the issuance of such a release. To this end your committee has been engaged in a study of the problems involved and as soon as the research department has completed its investigation of practices in this respect, your committee will give further consideration to the subject.

**POSTWAR RESERVES**

The research department cooperated with the Division of Tax Research of the United States Treasury in studies as to the nature and extent of, and basis of making provision for, postwar reserves by corporations. This problem is also an extremely important one and your committee has continued its interest in the subject since the issuance of Accounting Research Bulletin No. 13.

**ACCOUNTING RESEARCH**

In carrying out the plans of the executive committee your committee believes that it may be necessary, in the near future, to extend the Institute's research activities

and to augment its research staff. Owing to the absence of Lt. Colonel Brink in military service, Mr. Farrand has taken over his duties as assistant to the committee on auditing procedure. The research department has a number of studies under consideration for both committees and the growth of accounting problems has been such as to indicate the necessity of expansion. The committee has had this matter under consideration for some time and it is now being considered by the executive committee.

Respectfully submitted,

WALTER A. STAUB, *Chairman*

May 8, 1944

**Report of the Committee on Auditing Procedure**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:  
GENTLEMEN:

**WAR CONTRACT TERMINATION**

The termination of war contracts for the convenience of the government continues to be one of the most important matters affecting the accountancy profession as well as the entire national economy. Progress has been made in official circles as to the basic policies regarding war contract termination, but Congress is still wrestling with important legislation regarding the specific application of these principles and several bills are now pending which are designed to implement the basic policies of termination by establishing administrative organizations and outlining the termination procedures.

The Institute's committee on termination of war contracts, on which this committee is represented, has been following closely the administrative and legislative developments respecting war contract termination. While naturally interested in these developments, the committee on auditing procedure is more immediately concerned with phases of contract termination settlements in which the independent public accountant may be expected to play a part.

As indicated in its annual report for 1943, this committee has given extensive con-

sideration to the function of the independent public accountant in contract termination. A subcommittee appointed for the purpose prepared the draft of a statement on this subject which was the chief matter under consideration at a committee meeting held in New York City on October 18th. The meeting was attended by all but one member of this committee as well as by members of the executive committee and by all members of the committee on termination of war contracts. Following this meeting a statement was issued in December, 1943, as No. 20 of Statements on Auditing Procedure, under the title "Termination of Fixed-Price Supply Contracts—Examination of Contractors' Statements of Proposed Settlements." This Statement deals with practical considerations affecting the scope of examinations by independent public accountants of contract termination proposals; the responsibility they might properly assume thereunder; reports on such examinations; and special problems relating to subcontractors.

While the aforementioned statement of the committee has, no doubt, helped in bringing to the attention of the profession the importance as well as the peculiarities of war contract termination and the relation of the independent public accountant thereto, further education appears to be necessary and the Institute has undertaken

to do its part by bringing to the attention of its members the necessity for their informing themselves on the technical aspects of the problem. Experience to date has indicated the necessity for this; examinations and reports of independent public accountants on termination settlement proposals and claims, in some instances, have not been of a nature or scope sufficient to meet the needs of governmental officials or to provide the information and substantiation required in reaching a settlement. The rendering of professional services in respect of terminated war contracts constitutes a challenge to the accountancy profession which must be met by the adoption of an objective professional attitude and the assumption of a proper but clearly defined responsibility.

#### OTHER PUBLICATIONS

In addition to the statement on termination of war contracts, the committee in November issued Statements on Auditing Procedure No. 19, entitled "Confirmation of Receivables (Positive and Negative Methods)," in which recognition was given to the use in appropriate cases of either method of confirmation. While this was generally understood among accountants, it was considered desirable that it be stated formally.

Reference was made in a previous report to a study being made by a subcommittee as to various aspects of the independent accountant's short form of report. This subcommittee rendered a report which was reprinted in the March, 1944, issue of *The Journal of Accountancy*. The report discusses various phases of the standard form of report, including references therein to the scope of examination, confirmation of government receivables, testing and sampling, comparative statements, and the opinion paragraph. No change was recommended at the present time in the standard form of report, but the necessity for a reasonable degree of flexibility therein was recognized.

For some time the committee has given consideration to the matter of the independent accountant's responsibility on securities registrations, particularly such responsibility which may result from the declaration frequently made, in registration statements filed with the Securities and Exchange Commission under the Securities

Act of 1933, that the financial statements and other data covered by the accountant's report are given "on the authority of such firm as experts." A subcommittee rendered a report on this question, containing alternative forms of declarations respecting the accountant, and the report was published in the May issue of *The Journal of Accountancy*.

#### OTHER ACTIVITIES

Dean Acheson, Assistant Secretary of State, acting on behalf of the United Nations Relief and Rehabilitation Administration requested the Institute to review a proposed plan of accounting for use by the Administration in accounting for its activities. A subcommittee of your committee, which was appointed for this purpose, reviewed the plan and made recommendations thereon which were transmitted by the chairman of the committee to the Assistant Secretary of State and cordially acknowledged.

Numerous inquiries have been directed to the Institute in recent months as to the independent public accountant's responsibility to detect and report on violations by a client of government wartime regulations. While, as indicated in previous reports, the committee has given considerable attention to the broader question of the independent accountant's responsibility in respect of illegal and improper transactions by a client corporation, the committee feels that the more immediate question as to wartime government regulations should be dealt with first, and a subcommittee has been working on the subject. The basic questions here involved are whether and, if so, to what extent, the independent accountant should extend his usual examination of financial statements in order to assure himself that the client has complied with such regulations; and what course he should pursue if violations are discovered. Pending the issuance by the committee of a formal statement on the subject, the research assistant has prepared a statement containing information regarding some of the basic questions involved, such as the nature of the regulations, the purposes of the usual type of examinations, and applicable auditing procedures. This statement was published in the March issue of *The Journal of Accountancy*, and the committee is continuing its consideration of the subject.



In addition to the formal activities of this committee, the research assistant and chairman of the committee have answered inquiries directed to the Institute dealing with a number of matters of less general interest, which were not considered of sufficient importance to warrant detailed consideration by the full committee.

#### AUDITING STANDARDS

Starting in October, 1939, with "Extensions of Auditing Procedure," the committee has now issued twenty bulletins in the series of "Statements on Auditing Procedure." These deal primarily with specific auditing procedures, including case studies, and the independent public accountant's report on his examination.

The committee has not made much progress in agreeing upon a statement of auditing standards, but it is becoming evident as the committee pursues its studies that the determination of what is sound auditing procedure in particular circumstances calls for the exercise of judgment with respect to certain relationships, such

as the materiality of the item in relation to the whole, the relative risk of error (whether of omission, commission, or of judgment), and the relationship of cost to the protection or benefit which may be expected to result. One or more of these relationships seems to be involved in all of the statements dealing with auditing which have been issued by the committee.

Respectfully submitted,

SAMUEL J. BROAD, *Chairman*  
 J. N. AITKEN, JR.  
 FRED J. DUNCOMBE  
 GEORGE P. ELLIS  
 IRA N. FRISBEE  
 P. W. R. GLOVER  
 PAUL GRADY  
 CAROL F. HALL  
 EDWARD A. KRACKE  
 NORMAN J. LENHART  
 JOHN A. LINDQUIST  
 FRANK WILBUR MAIN  
 GEORGE WAGNER

May 8, 1944

#### Report of the Committee on Bankruptcy

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee on bankruptcy has been in touch with various situations regarding the affairs of bankruptcy. While we are of the belief that no new bankruptcy legislation will be passed during the current session, we are cognizant that a committee of the American Bar Association, headed by John Gerdes, has presented to the Judiciary Committee a strong recommendation for an amendment to section 270 of the Bankruptcy Act. It is doubtful, in our opinion, that this amendment will be put through, due to the tremendous amount of work that Congress has in war activities. Your committee believes, however, that close attention should be maintained by the bankruptcy committee regarding the problems with which it is faced.

We are pleased at this time to present particular problems, as follows:

The first is with reference to the income-tax feature. The committee on bankruptcy of the American Institute of Accountants has kept in touch with the problems involved in section 270 of the Bankruptcy Act and the limited remedial effects of the amendments to the Internal Revenue Code brought about by the Federal Revenue Act of 1943. This whole matter is under careful consideration by special committees, both of the Association of the Bar of the City of New York and the American Bar Association. Charles S. Banks of Chicago, who is a member of the Institute's committee on bankruptcy and who is also a member of the committee of the American Bar Association, will keep the council informed of developments. As soon as any action is taken on this, it will be referred by the bankruptcy committee to the tax committee of the American Institute for consultation and advice.

The following is the text of a report made by John Gerdes, chairman of the committee on reorganizations of the American Bar Association, on the above matter. We feel sure that his statement fully covers the problem.

The second matter has to do with the assignment of accounts receivable as security for loans. The committee on bankruptcy has kept in touch with this feature. This agitation is backed by the National Bankruptcy Conference, in which Charles S. Banks of Illinois, and the chairman of your committee, are active conferees. Agitation has been developed by banks and other agencies to amend section 60-A of the Bankruptcy Act, particularly to eliminate the bona fide purchaser test from the section as it affects assignment of accounts. This agitation has been intensified by the Supreme Court decision of the *Corn Exchange Bank v. Klauder*, 318 U.S. 434. This decision affects banks, lending agencies, and also attorneys, but not, to any great extent, accountants. However, when a decision is reached with reference to uniformity in reporting assigned accounts, the council of the Institute will be advised in order that proper accounting procedure may be outlined. As soon as this matter develops further, it should be referred to the committee on accounting procedure.

The third matter has reference to continuation of membership in the National Bankruptcy Conference. Your committee recommends a continuation of this membership.

There was presented to the committee by the committee on bankruptcy procedure of the New York State Society, a proposal for changes in Supreme Court rules No. 45 and No. 46. The procedure as proposed by the New York committee has been approved by the board of directors of the New York State Society. We therefore recommend that the following rule be proposed as No. 45:

**Auctioneers and appraisers:** No auctioneer shall be employed by a receiver, trustee, or debtor in possession except upon an order of the court expressly fixing the amount of the compensation or the rate or measure thereof. The compensation of appraisers shall be provided for in like manner in the order appointing them.

If adopted, the above rule will supplant the following:

No auctioneer or accountant shall be employed by a receiver, trustee, or debtor in possession except upon an order of the court expressly fixing the amount of the compensation or the rate or measure thereof. The compensation of appraisers shall be provided for in like manner in the order appointing them.

The committee believes that rule No. 46 as now adopted should be abrogated, and that the following should be adopted as rule No. 46:

**Appointment of accountants:** No accountant for a receiver, trustee, or debtor in possession shall be appointed except upon the order of the court, which shall be granted only upon the verified petition of the receiver, trustee, or debtor in possession, stating the name of the accountant whom he wishes to employ, the reasons for his selection, and the professional services he is to render, the necessity for employing an accountant at all, and, to the best of the petitioner's knowledge, all of the accountant's connections with the bankrupt or debtor, the creditors or any other party in interest, and their respective accountants. If satisfied that the accountant represents no interest adverse to the receiver, the trustee, or the estate in matters upon which he is to be engaged, and that his employment would be to the best interests of the estate, the court may authorize his employment, and such employment shall be for specific purposes unless the court is satisfied that the case is one justifying a general retainer. If without disclosures any accountant acting for a receiver or trustee or debtor in possession shall have represented any interest adverse to the receiver, trustee, creditors, or stockholders in any matter upon which he is employed for such receiver, trustee, or debtor in possession, the court may deny the allowance of any fee to such accountant, or the reimbursement of his expenses, or both, and may also deny any allowance to the receiver, or trustee if it shall appear that he failed to make diligent inquiry into the connections of said accountant.

As soon as these rules have been approved by the Institute, it is the intention of the committee on bankruptcy to contact the New York committee and formulate a

plan for presentation to the administrative office of the Supreme Court. It is felt by your committee that by working together, with the cooperation of other organizations, a satisfactory arrangement can be made

with the Supreme Court administrative office.

Respectfully submitted,

ARTHUR C. UPLEGER, *Chairman*

May 5, 1944

TO THE MEMBERS OF THE COMMITTEE ON REORGANIZATIONS OF THE SECTION OF CORPORATION, BANKING AND MERCANTILE LAW OF THE AMERICAN BAR ASSOCIATION:

Since the flurry which occurred at the time of the passage of the Federal Revenue Act of 1943 in February of this year, its veto by the President, and its final re-enactment over such veto, I have been making inquiries as to the situation regarding possible further legislation on the subject of taxes affecting reorganizations. My information is that proposals at this time to modify the Revenue Act would receive little attention. There is a greater probability of action if the matter is treated through the medium of proposed amendments to the Bankruptcy Act.

In section 121 of the Revenue Act of 1943, certain questions were definitely settled: (1) taxable gain or loss is not recognized in connection with a transfer of property in a reorganization through a receivership, foreclosure, or similar proceeding, or in a proceeding under section 77B or Chapter X (new section 112(b) (10) added to Revenue Code); (2) where a *different* corporation is used to acquire the assets of the debtor, the corporation acquiring the assets retains the old tax basis (new section 113(a) (22) added to Revenue Code); and (3) the exchange of new securities for the old securities; in the consummation of a reorganization, does not result in a taxable gain or loss for the person making the exchange (new section 112(1) added to Revenue Code).

The law is still in an unsatisfactory state where the debtor retains its assets under the reorganization. Furthermore, the inequity of saddling the reorganized corporation with greatly increased income taxes and surtaxes—because the dividends on stock substituted in the reorganization for indebtedness cannot be deducted from gross income before the tax is calculated—has not been remedied. The measures to be adopted to meet these two problems must

take into consideration the effect of loss carry-over provisions, excess-profits credits, and other factors.

It is clear that section 270 of the Bankruptcy Act should be amended so as to eliminate the inconsistency between its provisions and the new provisions of section 113(a)(22) of the Internal Revenue Code. It seems to me, however, that it would be well to delay any bill on this subject until agreement is reached on possible other amendments to meet the foregoing problems.

An efficient and effective subcommittee of the committee on bankruptcy and corporate reorganizations (of which I am chairman) of the Association of the Bar of the City of New York (of which subcommittee Edmund Burke, Jr., former member of the Securities and Exchange Commission, is chairman) is working on the matter, in conjunction with tax experts.

It seems to me that our committee may very well await the recommendations and proposals of the foregoing committee before taking action. Distance and travel difficulties handicap us in consulting together and in doing the constructive work necessary to build up concrete proposals. We are best qualified to pass upon the merits of proposals which have been formulated.

Unless the members of our committee believe this course should not be pursued, I shall assume that they agree that we should await the formulation of definite proposals.

Your views on the foregoing matters, including suggested legislation, will be appreciated.

Sincerely yours,

J. GERDES

April 20, 1944

## Report of the Committee on Coöperation with Bar Association

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on coöperation with Bar Association had no active program during the last six months but desires to report on certain matters which are of importance to the profession.

The case of *Lowell Bar Association v. Birdie T. Loeb et al.* was appealed and a brief filed on behalf of the Massachusetts Society as amicus curiae. The decision of the lower court had enjoined the defendants from, among other things, making out income-tax returns, whereas under the subsequent decision of the Supreme Court the making out of income-tax returns was not the unauthorized practice of the law. The excellent brief filed on behalf of the Massachusetts Society and the decision of the Supreme Court were published in full in *The Journal of Accountancy*.

The Georgia case, to which reference was made in our last report, is still pending.

On January 5, 1944, David F. Maxwell, chairman of the American Bar Association's standing committee on unauthorized practice of the law for 1943-1944, addressed a letter to the president of the American Institute of Accountants asking the Institute to send a representative to the next meeting of the Bar Association's committee in St. Louis early in February for the purpose of considering ways and means of eliminating the unlawful activities of people who have gone into the business of preparing income-tax returns on a wholesale scale. As a result of that request, the chairman of this committee, together with Messrs. Wagner and Barnes, members of the Institute's council, and Messrs. Boye and Lang, representing the Missouri State Board of Accountancy, attended a meeting with members of the unauthorized practice of the law committee of the American Bar Association, consisting of D. F. Maxwell, E. M. Otterbourg, W. W. Schroeder, and F. H. Spellman, in St. Louis on February 5, 1944. At that meeting the representatives of the Institute furnished the lawyers with information as to the organization of the accounting profession, the ethics of the Institute, and the extent to which the profession is able to exercise control over its members.

Mr. Maxwell on behalf of the lawyers suggested that something should be done to bring the two professions together in the interest of protecting and serving the general public and he was assured that the accountants would coöperate in any such move. In support of this it was pointed out that the Institute for a great many years has had a committee on coöperation with bar associations and that the accountants have on numerous occasions suggested to the American Bar Association that it appoint a similar committee. Mr. Maxwell was of the opinion that rather than follow this suggestion, which he admitted had its merits, it would be preferable to appoint what he termed a "conference group," consisting of five members from each of the two professions, who would be prepared to discuss any matters of importance coming between the two professions and would be authorized to make joint statements on behalf of both professions. The accountants agreed to follow this suggestion, and after considerable discussion a resolution was drawn up and unanimously approved by all present. That resolution read as follows:

"That a national conference group be organized consisting of five members of the American Institute of Accountants and five members of the American Bar Association, to be appointed by the presidents of the respective organizations."

and it was agreed to add the following statement by way of explanation:

"The American Institute of Accountants was originally organized in 1887. The American Bar Association was organized in 1878.

"Both organizations were created by their respective leaders to aid their members and to better serve the public.

"In the years that followed both organizations have sought to raise the standards of practice, have adopted and enforced codes of ethics, and have insisted on increasingly higher qualifications of character, knowledge, study and education. This work which is highly in the public interest is now being carried on.

"In modern times more and more, the average citizen is required from time to time to seek the professional services of accountants or lawyers, or both. The public is entitled to receive the most competent

advice and to be served by men of the highest character, aware of their public responsibility. Whatever can be done by both national organizations to improve service by their respective members will be of great and lasting benefit to the public.

"Misunderstandings of the proper respective functions of accountants and lawyers in this service should be avoided. Each has his proper sphere and responsible activity. Closer cooperation between the two professions is in the public interest.

"A national conference group composed of representatives of both professions can do much to further the development of professional standards, dispose of controversies and misunderstandings and expand the usefulness to the public of both accountants and lawyers."

The action of the accountants at this meeting was approved by the executive committee of the American Institute of Accountants, and the president appointed F. H. Hurdman, George P. Ellis, Edward A. Kracke, Homer N. Sweet, and William Charles to serve as the Institute's representatives.

On March 29, 1944, the secretary of the Institute had a meeting in Philadelphia with David F. Maxwell to discuss a joint release announcing the formation of the conference group of lawyers and accountants and to arrange a proposed agenda for the first meeting of the group to be held in Philadelphia on May 6, 1944. The joint statement, released on April 21st was as follows:

"The American Bar Association and the American Institute of Accountants today announced the joint establishment of a permanent National Conference of Lawyers and Certified Public Accountants to consider mutual problems affecting the interests of business and the general public.

"Announcement of the establishment of the Conference was made jointly by Joseph W. Henderson of Philadelphia, president of the American Bar Association, and Victor H. Stempf of New York, president of the American Institute of Accountants. The group, which comprises five representatives of each association, will meet in Philadelphia on May 6th. Members of the new conference as announced by the two presidents in their joint statement are:

"For the American Bar Association—James R. Morford of Wilmington, Del., a member of the board of governors; Percy W. Phillips of Washington, D. C., vice

chairman of the section on taxation; Thomas B. K. Ringe of Philadelphia, Pa., representative of the administrative law committee; Edwin M. Otterbourg of New York, N. Y., a member of the unauthorized practice of law committee; and David F. Maxwell of Philadelphia, Pa., chairman of the unauthorized practice of law committee.

"For the American Institute of Accountants—William Charles of St. Louis, chairman of the committee on cooperation with Bar Association of the American Institute; Frederick H. Hurdman of New York, a past president of the Institute, at present a member of its committee on professional ethics, and a member also of the committee on practice of the Treasury Department; George P. Ellis of Chicago, general chairman of the committee on federal taxation of the American Institute; Edward A. Kracke of New York, a member of its executive committee, and Homer N. Sweet of Boston, chairman of the Institute committee on cooperation with the Securities and Exchange Commission.

"One of the first subjects to be considered by the national conference will be the simplification of the tax structure. Other problems which may be considered by the conference include tax legislation and administration; procedure of administrative agencies of the government; expression of accounting principles in statutes; judicial decisions; legal and accounting aspects of corporate financial practice and reporting; and other matters of mutual interest.

"In their joint statement issued today Messrs. Henderson and Stempf said:

"In modern times, more and more, the average citizen is required to seek the professional services of accountants and lawyers or both. He is entitled to receive the most competent advice, and to be served by men of the highest character, aware of their public responsibility. Harm and injury are suffered by the public whenever such services are rendered by unqualified, incompetent or unprincipled persons.

"The American Bar Association was organized in 1878, and the American Institute of Accountants was founded in 1887. Both organizations were created by their respective founders to aid their members and to serve the public better. Both have continually raised their standards of practice, have adopted and enforced codes of ethics and have insisted on higher qualifications of character, knowledge, study and education among their members. One of the objectives of this national conference will be to coordinate the common efforts

of these two great associations to improve and expand the usefulness to the public of both.”

Your committee is of the opinion that this development in the relations between the two professions is of considerable importance. As was pointed out to the lawyers at the meeting in St. Louis on February 9th the Institute for many years has had a committee on cooperation with bar associations. The suggestions put forward at the St. Louis meeting were the first definite indications on the part of the representatives of the American Bar Association of a desire to cooperate with our profession.

The first meeting of the National Conference of Lawyers and Certified Public Accountants was held at the Ritz Carlton Hotel in Philadelphia on May 6, 1944, at which all of the representatives from the Institute were present, together with John L. Carey, secretary of the American Institute of Accountants.

Mr. Maxwell and Mr. Charles were designated as co-chairmen of the conference, and John L. Carey was designated secretary of the Conference. All communications in connection with the Conference are to be sent to Mr. Carey at the office of the American Institute of Accountants.

It was agreed that a statement of the policy and scope of activity of the Conference group should be prepared and sent to local bar associations and state societies of certified public accountants, together with an announcement of the formation and first meeting of the conference.

The following resolution was adopted unanimously:

“RESOLVED That

“The objectives of this National Conference are the following:

1. To further the development of professional standards in both professions.
2. To encourage cooperation between the two professions for the benefit of each and of the public.
3. To consider misunderstandings, involving fundamental issues, between the two professions and recommend means for disposing of them.
4. To devise ways and methods of expanding the usefulness to the public of both.
5. To seek means of protecting the public against practice in these re-

spective fields by persons not qualified to serve the public.

“FURTHER RESOLVED

“That the co-chairman be authorized to appoint subcommittees to study the above problems and to report back recommendations.”

Several subcommittees were appointed to cover the matters referred to in the preceding resolution.

The next meeting of the conference is to be held in Chicago, Illinois, in the week of September 10, 1944.

It is perhaps too early to predict the full benefits which may be derived by our profession from this new spirit of cooperation on the part of the American Bar Association, but it may be in order to discuss at this time some aspects of the situation.

The extent to which such cooperation between the two professions may be effective must depend in the first instance on the extent to which both organizations can exercise control over their members. On our side, we can exercise control over members through the Institute, the state boards, and the state societies, but the weakness in our position lies in our inability to exercise control over a relatively large number of people who practice accounting but who do not come under the control of these governing bodies. State legislation which prohibits the practice of accounting except by those duly registered by the state board appears to be the only method developed so far of achieving this result. It may be that with the active support of the state bar associations such legislation could be more easily accomplished. This matter should receive the careful consideration of the Institute.

It is inevitable that the discussions of this conference group will deal with that part of the accountant's work which may be described as tax work. So far as can be gathered at this time, the lawyers are more concerned with what they call the “fly-by-night” people all over the country who reaped a rich harvest early this year making up tax returns. Simplification of the tax law and tax returns and further development of the withholding tax feature, all of which the Institute has actively urged ahead of the Bar Association, will undoubtedly put a large number of these fly-by-nights out of business, but will not put them all out

of business. If the two professions cannot furnish the service required by taxpayers, some solution other than prosecution of the fly-by-nights must be found. Of course, any attempt by the lawyers to restrict the tax work done by members of our profession will be opposed.

There are a number of other matters in which the two professions can and should work together for the good of the business community. State income-tax laws and state corporation laws, with their duplication of effort and conflicting provisions, would in themselves be fruitful fields for research and joint action by the two professions.

In working out the proposed plan consideration will be given to setting up similar conference groups in the separate states.

It would appear that the representatives of the Institute on this National Conference group will take over the functions of the Institute's committee on cooperation with Bar Association, but it is recommended that no action of this kind be taken at this time.

Respectfully submitted,

WILLIAM CHARLES, *Chairman*

May 6, 1944

### **Report of the Committee on Cooperation with Bureau of Economic Research**

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: During the period since the meeting of the council in the fall of 1943, this committee has, upon request, met with the director of the financial research program of the National Bureau of Economic Research and with the author of a report on a study of "Corporate Cash Balances in Peace and War, 1914-1942," at the request of the National Bureau of Economic Research, and offered certain

suggestions and criticisms on a preliminary draft of the report. These suggestions and criticisms were based on a detailed review of the draft of report which had been made by the members of the committee.

Respectfully submitted,

CHARLES H. TOWNS, *Chairman*

PERCIVAL F. BRUNDAGE

MAURICE E. PELOUBET

May 2, 1944

### **Report of the Committee on Cooperation with Credit Men**

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Early in the year 1942 your committees on cooperation with bankers and cooperation with credit men collaborated in the preparation of a long-range program for the extension of state society activities with commercial and bank credit men throughout the country. This program was submitted to each of the state societies (see pages 110-112 of the Institute's 1942 yearbook).

Mindful of the important factor of "timing," your committees recently inaugurated a supplementary plan of procedure, whereby, with the permission of the individual state societies, the Institute office would undertake to communicate direct with local chapters of the Robert

Morris Associates and with local credit associations within the affected states, suggesting the desirability of communicating with the state society to explore areas of mutual interest.

Under date of April 26th a letter was addressed to the presidents of state societies suggesting the plan, together with a copy of the proposed letter to the Robert Morris Associates and trade associations. The plan will be best understood by a perusal of these two documents, copies of which are appended and made a part of this brief interim report.

Respectfully submitted,

SIMON LOEB, *Chairman*

May 3, 1944

## A PROGRAM OF ACTIVITY FOR STATE SOCIETY COMMITTEES

### I. BACKGROUND

Bank credit departments and commercial credit men are among the principal "consumers" of certified public accountants' reports.

Credit men are not through the country, perhaps, as directly interested in accountants' reports as bank-loaning officers, for example, because commercial credit men (with certain exceptions) seem to rely to a greater degree on ledger experience as reflected by the several rating agencies more than upon financial statements.

Notable exceptions to this generalization are such groups as the uptown credit group of the textile industry in New York. Here the peculiarities of the industry are such—for example, a lack of centralization in large units, a highly seasonal factor, heavy risks due to rapid style changes—that credit grantors cannot rely solely on experience but must have current certified financial statements.

As a result, the New York State Society has been able to develop close coöperative relations with credit groups in New York City, and, through joint meetings, joint projects conducted by coöperating committees, exchange of speakers at meetings, and exchange of articles for publication in the magazines of the respective groups, has had the opportunity to impart to those groups much information about the nature of financial statements, auditing procedure, and auditors' reports. This experience may be of some benefit to other state societies which have not yet been active in this field.

In other states commercial credit men in manufacturing and commercial business might be brought to rely more upon financial statements, in addition to ledger experience, through closer contact with the accounting profession.

The American Institute of Accountants has long maintained close coöperative relations with the national headquarters of the National Association of Credit Men and the Robert Morris Associates. Representatives of those bodies have appeared on programs of the Institute, and members of the Institute have appeared on programs of the Associations. Articles by Institute members, and publications of the In-

stitute, have frequently been reproduced in *Credit and Financial Management*, the official magazine of the National Association of Credit Men. It is believed that the coöperation of the National Association of Credit Men and Robert Morris Associates can readily be obtained in furtherance of any program designed to bring the state credit associations, and chapters of the Robert Morris Associates, which are closely affiliated with the national bodies, into closer contact with the state societies of certified public accountants.

### II. PURPOSE

The principal object of coöperation with bank credit men and commercial credit men should be to encourage them to make the most advantageous use of financial statements audited by certified public accountants, while at the same time avoiding "overselling," which might lead them to expect more than can be obtained from this source, with the subsequent reaction of disappointment and hostility toward the accounting profession.

Information on the following basic subjects should be imparted:

1. The nature of accounting—emphasis on importance of estimate, judgment, and opinion in financial statements and, therefore, the importance of the skill and experience of the accountant who audits them.
2. The nature of auditing—emphasis on testing and sampling technique and consequent importance of judgment in determining the extent of testing and sampling in view of internal control, and the importance of the skill and experience of the auditor.
3. The meaning of the auditor's report (certificate)—his responsibilities and limitations.
4. Rules of ethics of accountants and credit men as they relate to each other, and the responsibilities of both groups to client and the public.

### III. METHOD

The state society committee on coöperation with bankers or credit men should request the local association of credit men to appoint a coöperating committee, if none already exists. The Institute, when



the state society is ready to initiate this coöperation, will urge the National Association of Credit Men or the Robert Morris Associates to use its influence to persuade the local associations to do so. Through the coöperating committees, the following activities can be undertaken:

- (a) Joint meetings of the state society with the local chapter of the Robert Morris Associates or the local credit association, at which there may be addresses by members of both groups, possibly followed by questions and answers. In such cases it is desirable that the questions be submitted in advance so that answers may be submitted with care.
- (b) Addresses by certified public accountants at meetings of credit men, and vice versa, in order that the point of view of each group may be known to the other.
- (c) Conferences between the coöperating committees on special problems, followed by reports by each committee to its full membership in regard to the matters discussed.
- (d) Preparation of articles by CPA's for publication in the local credit men's bulletin or commercial bankers' magazine if one exists, and vice versa.
- (e) Circulation of appropriate written material among local bankers and credit men, for example, American Institute of Accountants public-information pamphlets, "Accounting and Your Pocketbook," "Financial Statements—What They Mean"; reprints of magazine articles or speeches of particular interest to bankers and credit men; copies of statements on auditing procedure issued by the American Institute of Accountants, and similar material (any speech by a local certified public accountant of particular interest to local bankers and credit men could well be mimeographed and sent to the bankers and credit men of the community by the state society).
- (f) Complaints by bankers and credit men with regard to financial statements or auditors' reports are almost certain to develop out of the joint discussions. Some of these complaints will be based

on misunderstanding, and the problem here is to explain to the complainant the purpose, nature, and limitations of accounting and auditing. On the other hand, some complaints will be found to have been caused by substandard work on the part of individual CPA's. In such cases, it is essential to the maintenance of confidence in the profession on the part of bankers and credit men that the state society show willingness to investigate such complaints, to endeavor to prevent repetition of substandard work by the member concerned, and in extreme cases to take disciplinary action against members guilty of serious malpractice.

This does not mean that in dealing with bankers and credit groups certified public accountants need adopt an apologetic attitude. Many complaints by bankers and credit men against individual accountants have been found to be unjustified, and a state society should be just as zealous to defend its members against ill-founded criticism as to prosecute wrongdoers. Some credit men and bankers may try to shift to the accountant responsibilities which are not rightfully his; and this should be resisted.

In any event, it should be to the benefit of all concerned to have facilities for free and frank discussion of general or specific problems which otherwise might give rise to serious misunderstanding between credit men and certified public accountants.

It is important to certified public accountants that bankers coöperate in responding to requests for confirmation of clients' cash balances, notes outstanding, maturities in custody, etc. To this end, general use of the standard bank confirmation form approved by the American Institute of Accountants and the National Association of Bank Auditors and Comptrollers should be encouraged. Auditors of the banks concerned, rather than the credit departments in this case, should be informed of the existence of the standard form and the importance of coöperating in responding to confirmation requests.

## Report of the Committee on Cooperation with Securities and Exchange Commission

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The subject we have to report upon at this midyear meeting is again the independent status of the public accountant.

The report of last October by the committee on cooperation with SEC discussed the amendment that the SEC had made in the independence rule in May, 1943. The substance of the amended rule in Regulation S-X is that an accountant certifying the financial statements of a company shall not have any substantial interest, direct or indirect, in the company, shall not be connected with the company in an official capacity or as employee, and shall not act for the company as promoter or underwriter; and the rule gives notice that the SEC may take into consideration all the relationships between the accountant and the company in determining whether he is in fact independent.

In January, 1944, the SEC issued Accounting Series Release No. 47, in which are described briefly twenty examples where the accountant had been considered by the SEC not to be independent. The SEC indicated in this release its conviction that certain types of relationships between a company and its certifying accountant would be so apt to bias the accountant's judgment on accounting and auditing matters that the mere existence of such a relationship would preclude a finding he was independent in fact with respect to the particular company. In one of the examples given in Release No. 47, for instance, the ruling was that an accounting firm was not independent with respect to a certain company, apparently on the sole ground that one of the partners had living with him a son who was assistant treasurer and chief accountant of the company under supervision of the treasurer. It is not yet clear how far the SEC might apply the presumptive theory and disqualify an accountant for lack of independence solely on presumption without regard for other evidence.

Public accountants in different com-

munities of the country are rendering important constructive services to large and small businesses. An accountant through such work may gain a firsthand knowledge of the organization, operations, and policies of a business and enjoy a close acquaintanceship with its executives. He should not because of the scope of his services alone be presumed to be not properly qualified to serve as independent auditor for the same company.

The view of the executive committee of the Institute and of this committee is that types of relationship which per se preclude independence should be limited to the connections specifically mentioned in the present rule in Regulations S-X. No other relationship should be conclusive of the accountant's bias and absence of independence without direct evidence of his actual lack of impartiality. This view has been stressed to the chief accountant of the SEC.

The development and acceptance of high standards of professional practice have been and are a primary aim of the American Institute of Accountants. There can be no dissent from the general proposition that auditors should be independent in relation to their clients. Auditors should not enter into any of the relationships specifically mentioned in the SEC rule. In other situations which may arise leading to a fair and judicial investigation of the auditor's independence, weight should be given to the auditor's character and professional attitude. These qualities mainly determine whether he is in fact independent and performs the auditing with due objectivity and impartiality.

Respectfully submitted,

HOMER N. SWEET, *Chairman*  
SAMUEL J. BROAD  
HENRY A. HORNE  
FREDERICK H. HURDMAN  
LEWIS LILLY  
ROBERT W. WILLIAMS  
JOHN H. ZEBLEY, JR.

May 8, 1944

**Report of the Committee on Coöperatives**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on coöperatives is a relative newcomer among the standing committees of the Institute. For this reason, its purposes and activities may not have proved of general interest to the members. However, the extremely rapid extension of the coöperative form of business endeavor makes it prudent and advisable to extend to the membership a greater knowledge of the requirements in this specialized field. The large number of coöperative organizations, especially in the agricultural field, and the rapid growth of those organizations, coupled with the fact that the coöperative statutes of many of the states, as well as an almost uniform by-law provision, require annual audits, from reputable public accountants, renders this a field of increasing importance to the profession, and one which should be generally embraced by it.

Since these agricultural coöperatives are created under separate statutes of the several states, the audit thereof presents special problems for the consideration of the auditor. The record of the profession generally in this field, has not been too good. Too often, there has been failure on the part of the auditor to observe compliance with the special requirements with respect to both the organization and operation of the enterprise. These special requirements particularly apply to conditions precedent to the right of exemption

from federal corporation income and capital-stock taxes and the right to borrow money from the banks for coöperatives. Too often, the auditors have been inclined to follow a program of audit which would be entirely satisfactory for the audit of a purely commercial firm, and have overlooked these special requirements. This lack of attention has failed to uncover contingent liabilities and in some instances actual liabilities with respect to back taxes, which has had an adverse reflection on our profession, almost to the point of indications of negligence.

The purpose of the activities of this committee may be stated as follows:

1. To make recommendations with respect to required audit procedures, subject, of course, to the confirmation and approval of the appropriate standing committee within the Institute, devoted to matters of audit procedures.
2. To suggest to the profession appropriate terminology and forms of statements, especially adapted to the coöperative form of organization, in order properly to reflect the particular coöperative character of a business enterprise; and to state its operations in such a manner as to conform to and reflect the non-profit principle. It is our intent to do this in coöperation with the Institute's standing committee on terminology.

Respectfully submitted,

WALTER L. BRADLEY, *Chairman*

May 6, 1944

**Report of the Committee on Coördination of State and National Organizations**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on coördination of state and national organizations submitted a report to the council at the 1943 annual meeting, indicating what it believed to be the nature of the problem with which it was confronted, and suggesting possible means of approaching a solution. The report was also presented at a meeting of the Advisory Council of State Society Presidents held during the Insti-

tute's annual meeting, and was the subject of some discussion there.

Following the annual meeting your committee addressed a letter to all members of council of the Institute, and all presidents of state societies, asking for responses to the following questions:

1. What, if any, weaknesses do you believe exist in the professional accounting societies in the United States at the present time?

2. What specific thoughts have occurred to you as to how the professional accounting societies might be strengthened?
3. Particularly, what steps in your opinion would facilitate closer collaboration between the state societies and the Institute?

Only sixteen replies were received from 112 individuals to whom the inquiry was addressed. However, the replies provided a sufficient cross section of opinion to be of considerable value to the committee.

Most of the suggestions contained in these replies would, in the opinion of the committee, be met through the creation of a department in the staff of the Institute which would devote full time to distribution of information to state society officers and committees, and to coordination of state society and Institute activities.

As a part of this report, therefore, your

committee submits an outline of a proposed plan of coordination providing for the establishment of a state society service department, and indicating its functions. If council approves the plan, your committee suggests that it be placed on the agenda for consideration of the Advisory Council of State Society Presidents at its meeting in October, 1944, and that the report of the Advisory Council, following discussion of this matter, be submitted to the council of the Institute for final action.

Respectfully submitted,

GEORGE S. OLIVE, *Chairman*  
 PARRY BARNES  
 JULIAN A. HAWK  
 FREDERICK H. HURDMAN  
 J. ARTHUR MARVIN

April 1, 1944

## MEMORANDUM OUTLINING PLAN OF COÖRDINATION BETWEEN STATE SOCIETIES OF CERTIFIED PUBLIC ACCOUNTANTS AND AMERICAN INSTITUTE OF ACCOUNTANTS

### OBJECTIVES

1. To bring full information about professional affairs of both local and national interest to every member of every state society, as well as to every member of the Institute, so far as possible.

2. To assist state societies in improving their operating procedures where necessary, and to stimulate additional activity by state societies, so as to increase their value to their members and their influence in their several communities.

3. To coordinate action of state and national organizations on specific projects so as to bring the full influence of the whole profession to bear in the solution of problems involving legislation (viz., proposal for non-partisan tax commission), relations with other bodies (viz., American Bar Association in re unauthorized practice of law), or general public relations (viz., reaction of public to *McKesson & Robbins* case).

### PROPOSAL

These objectives are being achieved to a considerable extent under the present program. However, the staff of the Institute believes that progress toward full attain-

ment of these objectives could be greatly accelerated by employment of a full-time staff to operate as a department of the Institute, whose objective would be to serve state societies.

As a part of the Institute's staff, the state society service department would operate under the direction of the secretary of the Institute, and its work would therefore be fully coordinated with that of the general administration department, the editorial department, the research department, the public relations department, the library, and the various committees of the Institute.

The staff would consist of the following:

Head of the State Society Service Department—a man or woman responsible for carrying out all the specific procedures listed below, and supervising the entire work of the department.

A secretary to assist the head and handle correspondence.

A typist and clerk to reproduce information such as circular letters, memoranda, and reports.

A file clerk to maintain card records of names and addresses and cor-

respondence files, and files of reports and memoranda issued to state societies.

It is estimated that the salaries of the staff of this department might aggregate from \$7,000 to \$8,000 at the beginning, and that printing, postage, mimeographing, telephone, telegraph, and travel expense might aggregate another \$3,000 or \$4,000 per annum.

A beginning budget of \$12,000 appears adequate to launch the experiment, though it is probable that the amount would increase if the department proved successful in view of added demands that would be made upon it.

#### SPECIFIC PROCEDURES

##### *Mailing lists*

The department would maintain mailing lists (probably on Addressograph stencils) of the names and addresses of the following groups, segregated for special use:

- (a) All members of state societies not members of the Institute.
- (b) All members of state societies also members of the Institute.
- (c) Presidents of all state societies and their chapters.
- (d) Other officers and directors of all state societies and their chapters.
- (e) Members of all committees of state societies.
- (f) Editors of state society bulletins.

##### *Coordination of committee activities*

1. The Institute would request each state society to appoint as a minimum the following committees:

Accounting	Coöperation with
Auditing	Bar Association
Taxes	By-laws
Ethics	Budget
CPA law	Audit
Education	Nominations
Public information	Membership
Coöperation with	Meetings
credit grantors	Bulletins

Other "standard" committees might be recommended from time to time.

2. At the earliest possible date the state society service department, with the aid of the corresponding Institute committee, would provide each state society with a detailed outline of activity for each committee (See exhibit A attached, "Program of Activity for State Society Committee

on Coöperation with Credit Grantors.") These programs of activity would be submitted for criticism to state societies before final adoption. The state society service department would then place in the hands of each committee member of each state society a copy of the program as adopted and revised for the current year.

3. At periodic intervals the state society service department would request the chairmen of all state society committees for reports of progress. The information received in these reports would be digested and consolidated, and an over-all report would then be returned to the appropriate state society committees showing what other states had accomplished in comparison with their own accomplishments, and in comparison with the uniform program agreed upon (this might serve as a stimulus to committee activity).

##### *Distribution of information*

1. Weekly or fortnightly the state society service department would issue a mimeographed outline containing very brief reports of everything that was being done by the Institute's officers, committees or staff, and every subject of importance under consideration by the Institute. This memorandum would be sent to all officers, directors and committee members of the state societies, and editors of state society bulletins, each of whom would note the captions indicating subject matter related to his own state society work.

2. At periodic intervals (probably monthly) all state society bulletins would be reviewed and a digest of the information they contained would also be sent in dittoed or mimeographed form to all state society officers, directors, editors, and committeemen.

3. Copies of Institute research bulletins, statements on auditing procedure, tax bulletins, committee reports, and relevant items in *The Journal of Accountancy* and *The Certified Public Accountant*, government documents reprinted for distribution to Institute members, etc., would be sent to the appropriate committee of each state society.

##### *Service to state societies*

1. State society committees would be encouraged to request the advice of Insti-

tute committees on specific problems, which would be procured by the state society service department.

2. A speakers' bureau would be maintained through which the state society service department would provide speakers for state society meetings.

3. Regional conferences would be organized by groups of state societies with the full cooperation of the Institute's state society service department, as well as the public relations department, and other members of the staff.

4. All the facilities of the Institute would be available in planning the subject matter to be covered at state society and regional meetings.

5. The Institute's librarians could assist greatly in the establishment of local accounting libraries.

6. State societies would be encouraged to provide means whereby younger practitioners might secure the benefit of the knowledge and experience of other members of the profession.

7. The head of the state society service department might, on invitation, attend meetings of boards of directors of state

societies as often as convenient to discuss specific problems and to improve the coöperative procedure.

#### ADVISORY COUNCIL

The Advisory Council would meet as at present at the time of the annual meeting of the Institute. It would receive a report from the state society service department relating accomplishments of the year, which would probably afford the basis for extended discussion of all aspects of the work of the professional societies.

The meetings might be expanded to include secretaries and committee chairmen of the state societies, and to cover more than one day, or it might be broken up into sections for part of the time at which the chairmen of like committees would meet together, secretaries would meet together, and presidents would meet together.

Presidents of state societies, as before, would be invited to attend the spring meeting of council of the Institute.

Resolutions adopted by the council requesting the assistance of the state societies would be transmitted to the Advisory Council, and vice versa.

### Report of the Committee on Federal Taxation

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The work of your committee on federal taxation has been divided into two subcommittees. The general policy and operating procedure, and the prospective programs for these subcommittees were discussed with our president at a special organization meeting on November 5, 1943, in New York City, attended by the two subcommittee chairmen and the general chairman. A twofold program on short-range and long-range tax problems was decided. The immediate administrative and legislative tax issues requiring prompt attention and action were delegated to the subcommittee on current legislation under the chairmanship of Maurice Austin. Research studies and recommendations of long-range projects of tax reform, simplification and codification were assigned to the subcommittee on research under the chairmanship of Harry E.

Howell. The general chairman was designated as over-all coördinator and expeditor of the two subcommittee programs.

The major emphasis of the committee's work during the past six months has been placed on furthering the Institute's resolution adopted at the annual meeting October 19, 1943, urging Congress to establish a non-partisan tax commission to simplify the federal tax system. The combined efforts of the committee chairmen, the secretary of the Institute, and the staff, have resulted in the introduction of several bills which are in accordance with the purposes of the Institute's resolution. This project has brought indirect benefit to the profession through the closer relationship which has been established between the profession and the community through our efforts in behalf of this public-spirited project. The details of the Institute's activities on this project and all general progress will be presented in the

report of the chairman of the subcommittee on research.

On February 19, 1944, the committee on federal taxation met at the offices of the Institute in New York City to consider recommendations for simplification of the individual income tax at the request of several Congressional members of the House Ways and Means Committee for advice. On March 2, 1944, pursuant to arrangements, Messrs. Austin and Howell, accompanied by the secretary, appeared before a technical group composed of representatives of the staff of the Joint Committee on Internal Revenue Taxation, the Treasury Department, and the Bureau of Internal Revenue, formed at the instance of the House Ways and Means Committee to draft recommendations for simplification of the individual income tax. The government representatives were very receptive and expressed appreciation for the contributions made in the appearance. A preliminary report of the recommendations has been prepared and is in the final processing stage. This technical group is now giving consideration to these recommendations. The details of these recommendations, as well as technical recommendations regarding the Revenue Act of 1943, and administrative considerations of the subcommittee on current legislation will be presented in the report of its subcommittee chairman.

In response to an invitation from Norman D. Cann, Deputy Commissioner of the Bureau of Internal Revenue, Harry E. Howell, the secretary, and your general chairman, called at his office in Washington on March 14th to discuss the application of regulations governing the use of the last-in, first-out inventory basis. Due to a prior engagement, Mr. Cann requested us to discuss the matter with F. T. Eddingfield, technical advisor to the Deputy

Commissioner in charge of income tax of the Bureau of Internal Revenue. The issue involved the right to convert inventories in semi-finished and finished state back into their component costs and to classify the raw material contained therein as part of the inventory subject to the benefits of the last-in, first-out method. The subject was discussed at length, but due to the controversial points involved, no conclusions were reached. Your general chairman since then has participated in several meetings with the various industries concerned to discuss their individual problems, and the matter is now receiving our further consideration.

Your committee has also endeavored to establish a program of cooperation with the committees on federal taxation of the state societies. The secretary contacted the presidents of the state societies in behalf of the committee on November 10, 1943, suggesting that it would be mutually beneficial to exchange ideas, and asking them to create specific tax committees, if not already in existence. These groups were invited to submit their recommendations which would be correlated through the subcommittee on current legislation. On January 13, 1944, a memorandum was distributed to the state societies, outlining the current activities of our committee as of that date, and inviting their comments. It is indeed gratifying to report that we have received many responses; that several societies have newly created tax committees, and that many have taken an active part in the Institute's non-partisan tax commission project. Closer cooperation and coordination may be expected in the future.

Respectfully submitted,

GEORGE P. ELLIS, *Chairman*

April 13, 1944

### **Report of the Subcommittee on Current Legislation of the Committee on Federal Taxation**

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The subcommittee on current legislation of the committee on federal taxation submits the following mid-

year report of its activities. These activities may be divided into the principal categories of administrative and procedural matters, recommendations re Revenue Act of 1943, recommendations for simplification of the individual income tax, and pending matters.

ADMINISTRATIVE AND PROCEDURAL  
MATTERS*Extensions of time for filing 1943 tax returns*

On January 8, 1944, the chairman addressed inquiries to the Commissioner of Internal Revenue and the Assistant Secretary of the Treasury, requesting an expression of the policy of the Bureau of Internal Revenue in connection with the consideration of applications for extension of time for filing individual income-tax returns and corporate income and excess-profits-tax returns for 1943, in view of the difficulties which public accountants were experiencing under current conditions in completing tax returns in time for filing by the statutory due dates. A reply was received under date of January 31, 1944, from the Acting Commissioner of Internal Revenue, to the effect that the procedure and policy would be substantially the same as promulgated last year and that the Bureau and the Collectors fully appreciated the problems confronting taxpayers and their agents under wartime conditions and were prepared to cooperate in every reasonable way. Copy of this announcement was distributed to the members and associates of the American Institute of Accountants under date of February 4, 1944, with a transmittal letter in which attention was directed to the importance of keeping applications for extensions to a minimum in order to cooperate with the Bureau of Internal Revenue.

*Extension of time for election of retroactive application of sections 760 and 761*

On February 9, 1944, a letter was addressed by the chairman of the subcommittee to the Commissioner of Internal Revenue pointing out the difficulties being encountered by accountants in gathering and analyzing the data necessary in determining whether an election should be made to apply the provisions of sections 760 and 761 retroactively to taxable years beginning in 1940 and 1941, and urging that the regulations be amended by extending the time for election from March 15, 1944, to September 15, 1944. This was preceded and followed by personal discussions with representatives of the Bureau. Reply was received on March 1, 1944, indicating

that the matter was being acted upon, and on March 2, 1944, TD 5335 was issued which provided that the Commissioner might grant a reasonable extension for the making of an election under sections 760 and 761 upon a showing prior to March 15, 1944, to his satisfaction that (1) unusual circumstances existed in the taxpayer's case, and (2) the granting of the extension would not jeopardize the interests of the government.

*Use of privately printed income tax return forms*

In view of the Internal Revenue Bureau's ruling of November 10, 1943, requiring income-tax returns to be prepared in all cases on the official forms, the chairman of the subcommittee advised the Commissioner of Internal Revenue on December 22, 1943, of the difficulty involved in obtaining a sufficient number of the returns for filing purposes, retained copies, and pencil copies, which necessitated the use of such privately printed forms. Information was requested as to the effect of the Bureau's ruling and whether sufficient official forms would be available for all purposes. Reply was received under date of January 29, 1944, advising that the policy of the Bureau is to accept income or excess-profits-tax returns only when filed on official forms furnished by the government. It was stated that Collectors of Internal Revenue had been instructed to furnish tax accountants with copies of official forms reasonably required for work sheets and retained copies, but that there was no objection to the reproduction of official forms for use other than for filing purposes.

*Regulations regarding certificates of non-necessity—section 124(d)(1)*

Under date of November 18, 1943, the chairman of the subcommittee requested information from the Secretary of War and the Secretary of Navy regarding the issuance of regulations for obtaining certificates of non-necessity under section 124(d)(1) in view of the fact that cases of discontinuance of the use of war facilities for war production purposes had already occurred. Under dates of November 23 and November 25, 1943, the War Department and the Navy Department, respectively, advised that these regulations had



not been finally promulgated. However, the War Department forwarded a form memorandum on which they are currently accepting applications. This form was reproduced in *The Certified Public Accountant*, December, 1943, page 3.

#### *Natural business year changes*

Efforts are being continued, through personal conferences with Treasury and Bureau representatives, to obtain a modification of the Bureau's policy so that changes to natural business years may be made without difficulty where the change is not sought for tax avoidance purposes.

#### *Independent Bureau of Internal Revenue— H. R. 4273*

Representative Knutson's bill, H. R. 4273, introduced February 24, 1944, "providing for the collection of internal revenue taxes and the administration of the internal revenue laws by an agency independent of the Department of the Treasury," was considered by the individual members of the full committee on federal taxation in response to a written request dated March 3, 1944. The consensus of the replies was that no position should be taken on this issue.

#### *"Mushroom" tax experts*

The committee, at its meeting on February 19, 1944, considered whether any action should be taken on the sudden growth of "mushroom" tax experts, of doubtful qualifications, who offered their services at rates up to \$5.00 in shops, stores, and similar locations. It was agreed that it was not feasible to take any action at the present time, but that the matter would receive further attention with a view to the future. It was further agreed that basic simplification of the tax laws and forms was the real solution to the situation.

#### RECOMMENDATIONS RE 1943 REVENUE ACT

##### *Excess profits tax avoidance—section 115*

In a letter dated November 29, 1943, the chairman requested the views of the members of the subcommittee regarding the proposed House version of section 115 relating to tax avoidance devices. The chairman presented the views of the subcommittee in person to representatives of the Treasury Department and of the

Bureau of Internal Revenue. These views were further expressed in a communication dated December 6, 1943, to Stanley S. Surrey, Tax Legislative Counsel of the Treasury Department, copies of which were forwarded on December 11, 1943, to Senator George, Chairman of the Senate Finance Committee, Representative Doughton, Chairman of the House Ways and Means Committee, and Colin F. Stam, Chief of Staff of the Joint Committee on Internal Revenue Taxation. This communication, though expressing approval of the purposes of the House version of section 115, recommended that the language of the section be clarified and limited so as to provide assurance to the honest taxpayer that, ordinary and normal business transactions, not intended to be attacked by the legislation, would not be impugned as tax avoidance devices. The section, as finally enacted in the Revenue Act of 1943, is in substantially revised form, which eliminates most of the difficulties and uncertainties found in the House version.

##### *Tax return simplification*

The chairman requested by letter the views of the members of the subcommittee with regard to certain proposals dealing with withholding and tax return simplification. On the basis of the responses received by mail and telegram, the chairman presented in person to representatives of the Treasury Department the following suggestions: (1) closer correlation of the withholding tables with the short form (1040-A) tax schedule so that, for example, the weekly withholding table would provide for withholding of an amount equal to  $\frac{1}{2}$  of the tax shown for that income bracket in the 1040-A table, the purpose being to provide for more exact correspondence between the amount withheld and the actual tax, and thus to pave the way for further steps in the direction of eliminating tax-return filing in the lower wage brackets; (2) the use of graduated withholding for those above the first surtax bracket; (3) elimination of percentage withholding and restriction of withholding to the wage bracket tables or, alternatively, to narrow the wage brackets in the withholding tables, so as to eliminate the present large disparity in many cases between percentage withholding and with-

holding according to the tables. These suggestions were not acted upon in connection with the Revenue Act of 1943 but do appear in the tax return simplification bill now pending before Congress.

*Computation of excess-profits tax postwar refund—section 780(a)*

In a letter dated December 11, 1943, the chairman of the subcommittee submitted recommendations to Senator George, Representative Doughton, Colin F. Stam, and Stanley S. Surrey, proposing an amendment to section 780(a) to prevent discrimination in the computation of excess-profits tax postwar refunds for corporations with fiscal years beginning in 1941 and ending after June 30, 1942. The Revenue Act of 1943 has adopted this amendment.

RECOMMENDATIONS FOR SIMPLIFICATION OF THE INDIVIDUAL INCOME TAX

At the joint meeting of the subcommittee on current legislation and the subcommittee on research on February 19, 1944, at the Institute's offices, presided over by the general chairman, consideration was given to immediate simplification of the individual income-tax law. The discussion was based on the premise that the present income and rate structure would not be materially disturbed, and the recommendations dealt solely with simplification of mechanics within the existing basic rate structure. The committee felt that, while improvements in these matters are of first-rate importance and will yield immediate relief, particularly to taxpayers in lower income brackets, the basic need is for a thorough review of existing internal revenue laws with a view to ultimate enactment of a relatively simple revenue law embodying a consistent policy of federal taxation designed to meet war and postwar needs. The best instrument to accomplish such purpose, it was felt, would be a legislatively created non-partisan tax commission for the express purpose of examining into this question and reporting its recommendations, and that the creation of such commission should receive immediate Congressional consideration.

In the brief time at its disposal due to the urgency of preparing recommendations for a discussion with the technical group

at Washington, the committee reached substantial agreement on the following propositions:

1. Income subject to tax should be the same for all tax purposes.
2. The normal tax, surtax, and victory tax should be integrated into a single rate schedule, unless the victory tax was to be retained with all its present features, in which event a separate victory-tax computation probably could not be avoided.
3. Penalty for underestimating tax should not apply if the original declaration, timely made, is at least equal to the preceding year's tax, as distinguished from the tax, at new rates and exemptions, on last year's income, as in the Revenue Act of 1943.

The committee also considered the following proposals:

1. Graduated withholding.
2. Elimination of necessity of filing returns by wage earners subject to withholding.
3. Extension of the use of Form 1040-A to higher income brackets, such as \$5,000.
4. Establishing a fixed tax-saving value for exemptions and credits, thus making them deductible in the lowest income bracket instead of in the highest income bracket as at present.
5. Integration of tax rates into income bracket tables.

The chairman of the subcommittee on research, the secretary, and the chairman of this subcommittee, with a technical group constituted by the Ways and Means Committee, composed of representatives of the staff of the Joint Committee on Internal Revenue Taxation, the Treasury Department, and the Bureau of Internal Revenue, met in Washington on March 2, 1944. At this meeting the subcommittee chairmen informally discussed these matters and the factors in favor of or against these proposals as discussed in the meeting of your committee, as well as certain personal suggestions from the two subcommittee chairmen. The recommendations were received very favorably and it is our understanding that they were given full consideration in the individual tax simplification bill which is now before Congress. Many of the recommendations made have been incorporated in the pending bill, including such matters as (a) replacement of the victory tax by a 3 per

cent normal tax and incorporation of the old normal tax in the surtax table; (b) using the same basic exemption, \$500, for the purpose of all tax computations; (c) rearrangement of the exemptions and credit so that the difference in exemption between joint and separate returns would be an even multiple of the credit for dependents, thus permitting of simplification of the 1040-A table; (d) extension of the 1040-A principle of automatic tax tables, according to income brackets, to incomes up to \$5,000; (e) closer correlation of the withholding tables with the 1040-A tables, with the result that the withholding in brackets up to \$5,000 would in virtually all cases cover the entire tax as per the 1040-A tables; (f) extension of the 1040-A principle to all types of gross income, after allowance for business deductions, etc.; and (g) adaptation of form W-2 as a simple form of return for wage earners under \$5,000 whose tax would be almost entirely collected through withholding.

#### PENDING MATTERS

Extensive technical recommendations on various provisions of the federal tax law, some adopted by your committee, and others yet to be acted upon, have not yet been submitted to Congressional and administration officials because that did

not appear to be appropriate during the pendency of tax bills intended to be limited to revenue raising and simplification objectives. These technical recommendations and the position which the committee should take on the problem of deductions for postwar expenditures and losses arising from wartime operations are receiving current attention by this subcommittee, and a meeting to discuss these matters will be called shortly. First in order of business will be consideration of proposals for simplifying and coordinating the taxes on corporate income. Mr. Green and Mr. Chinlund, members of the subcommittee, have also been appointed to study and make their recommendations on the specific problem of dealing with excessive depreciation deductions in loss years from which no tax benefit was derived, in the light of the Supreme Court's decision in the *Virginian Hotel Corporation* case.

In addition to the foregoing activities, the subcommittee on current legislation received suggestions and inquiries from members of the Institute, which were reviewed and appropriate action taken.

Respectfully submitted,

MAURICE AUSTIN, *Chairman*

April 14, 1944

### Report of the Subcommittee on Research of the Committee on Federal Taxation

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your subcommittee on research is pleased to submit the following midyear report of its activities.

The work conducted by this subcommittee has been handled on the basis of specific assignments of topics to its various members, and the submission of reports for consideration and review by the other members. The studies which are in process now are:

#### *Accounting v. tax concepts of income*

Charles Melvoyn is analyzing "accounting v. tax concepts of income." His study includes a comparison of accounting and tax methods and the concepts upon which

they are based with a view to attempting to resolve the differences either by recommending a change in the accounting practice or in the tax practice.

#### *Nuisance provisions*

Frank Youngman has made a preliminary review of the nuisance provisions in the tax law of minor revenue value which complicate administration and should be eliminated.

#### *Depreciation*

The technical assistant to the committee on federal taxation has a study of "depreciation for tax purposes" in process. The purpose of this study is, by an examination of the statutes, the regulations and the administrative procedures, to determine:

- (a) By what means continual adjustments can be eliminated.
- (b) To what extent it is possible for the taxpayer's depreciation, within certain limits, to be accepted as final.
- (c) To what extent some binding declaratory determination or stipulation could be made in advance on specific depreciation matters.

LONG-RANGE TAX SIMPLIFICATION:  
NON-PARTISAN TAX COMMISSION

The major project of this subcommittee during the past six months has been the sponsorship of the resolution adopted at the annual meeting October 19, 1943, urging Congress to establish a non-partisan tax commission. This entailed the building up of favorable opinion throughout the country—of the general public, industry, financial circles, professional groups, the government agencies involved, and, in particular, the key committee men and the members of Congress most influential in tax matters. The president, the secretary, and the general chairman have performed a major part of the work and we have had the splendid cooperation of the executive committee and the staff of the Institute.

The development and progress of the program may be divided into two phases. The first phase entailed all efforts to bring the resolution and the meaning of tax simplification in terms of the resolution to the attention of the accounting profession, the general public, and government officials, with a view to the introduction of legislation in Congress.

Widespread announcement of the adoption of the resolution through press releases, *The Journal of Accountancy*, and through special mailings to state societies and to members of the federal government, including those of the House Ways and Means Committee, the Senate Finance Committee, the Treasury, and the Bureau of Internal Revenue, was the first step in the program. These distributions brought forth favorable editorial comment throughout the country and evoked interest among the profession, as well as sympathetic acknowledgment from the various government officials.

The state societies were invited to adopt similar resolutions as evidence of the unanimity of the accounting profession on the proposal. Fifteen state societies and

five chapters adopted such resolutions and publicized them in their communities and to their local legislative representatives.

This first publicity was followed by regular editorial comment in *The Journal of Accountancy* and the publication of an article in the January, 1944, issue entitled "Defects in Federal Tax Law and Administration," an analysis of 600 letters received in response to Colonel Robert H. Montgomery's circular letter dated June 25, 1943. News abstracts, based on this analysis, and on talks presented at state society meetings in November, 1943, by Messrs. Phillips and Carey, were released to the press and to the state societies, while reprints of the analysis were mailed to various government officials.

A statement entitled "The Case against Federal Taxation," by Colonel Robert H. Montgomery, was distributed by the American Enterprise Association, a non-profit organization supported by business, whose sole purpose is to inform Congressmen on their list regarding legislative matters, particularly those involving technical and economic questions.

The Institute's resolution was brought to the attention of the New England Council of Governors, and, after consideration, the Council adopted a resolution urging the President of the United States to establish a non-partisan tax commission, which resolution, however, was withheld at our request pending the outcome of negotiations with representatives of the House Ways and Means Committee.

Personal interviews with Congressional representatives were begun in December, 1943. The first conferences on December 14, 1943, with a member of the House Ways and Means Committee and a member of the Senate Finance Committee indicated sympathy with the objective of the resolution but a coolness to the establishment of a non-partisan commission as the means of accomplishing a long-range, integrated tax law. Arguments were advanced that existing technical facilities were adequate and that the creation of another outside group would be a waste of money and would result in the same bickerings which are experienced at present. It appeared unlikely at the time that a majority member of Congress would sponsor such legislation, but more probable that a minority member might

introduce the legislation, which would not be passed.

Your subcommittee chairman thereupon submitted a report to the executive committee at its meeting on December 16, 1943, in which five alternatives, including the abandonment of the project, were outlined as possible courses to pursue. The executive committee approved continued activity along the lines of the first four suggestions. These were as follows:

- (1) Should efforts to obtain endorsement by a majority member be unavailing, if possible, a minority member should be urged to introduce a resolution, regardless of the likelihood of enactment.
- (2) If legislation could not be enacted, Congress should be urged to reestablish the advisory council to the Joint Congressional Committee on Internal Revenue Taxation, which functioned in 1927. It was felt that this might be the most practical solution since no legislation would be required other than Congressional appropriation for operating funds.
- (3) In the event that either of the first two suggestions should not be feasible, efforts should be made to establish an independent tax commission composed either of several interested groups or of Institute members only. Such a group would be entirely separate from the government and would study, report, and publicize their results and, in turn, present them before the government committees. The difficulty in financing such a project adequately, either by interesting a foundation or through Institute membership voluntary subscriptions, was noted. However, the committee felt that this was worth trying if all else failed.
- (4) The President of the United States should be asked to appoint a non-partisan tax commission.

Conferences were then continued with various members of the House Ways and Means Committee and the Senate Finance Committee. Largely as a result of these efforts, Representative Carlson (R-Kan.) introduced H. J. Res. 211 on January 10, 1944, providing for a non-partisan commission to make a thorough study of the tax system. Following Representative Carlson's resolution, Representative Aime Forand (D-R.I.) introduced H. R. 4086 on January 28, 1944, providing for a non-partisan tax commission similar to that

provided in the Carlson bill, but differently constituted and appointed. Representative Harold Knutson (R-Minn.) introduced H. J. Res. 233 on February 9, 1944, and Representative Henry O. Talle (R-Iowa) introduced H. J. Res. 236 on February 16, 1944, providing for the creation of an advisory council to assist the Joint Congressional Committee on Internal Revenue Taxation in simplifying and coordinating the federal tax system. Finally, Senator James J. Davis (R-Pa.) introduced S. Con. Res. 36 on February 25, 1944, providing for a committee of ten certified public accountants to study the tax laws and report recommendations for simplification. Four of these bills may also be said to be the direct or indirect results of the Institute's efforts.

Upon the introduction of Representative Carlson's resolution, the progress on this project entered its second phase. Every effort was made to enlist the support of the accounting profession, state societies, the general public, and leading organizations interested in the tax problem, and to stimulate expression of their support to their legislative representatives in order to bring about early and favorable action on the pending resolutions by Congress.

On January 25, 1944, the president distributed a letter to the members and associates of the Institute setting forth the Institute's resolution and the Carlson bill, and urging all to write their Congressmen and to have their clients do likewise in support of this bill which embodied the purposes of the Institute's resolution. A copy of the Carlson bill and the text of the American Institute of Accountants resolution on tax reform were sent to a special information list of 201 editors of daily newspapers, which resulted in several editorial references to tax simplification and the Institute's part in promoting the proposal. A second letter was distributed by the president on February 19, 1944, to all certified public accountants, as well as Institute members and associates, calling attention to the bi-partisan support evidenced by the Forand bill, and again urging all possible support of the objective.

Two similar letters were sent by the president to the state societies again suggesting the adoption and publication of resolutions, the circularization of members, and the conducting of meetings and

discussions before local Chambers of Commerce, Kiwanis, and Rotary clubs.

The president also wrote to sixteen leading organizations, including banking, credit, business, accounting, legal, labor, farming, and tax research groups, explaining the project and urging them to contribute their support to this worthy objective. The secretary followed this letter up energetically with numerous conferences and luncheon meetings with leading executives and representatives of these organizations, as well as others.

As a result of these efforts, the subcommittee file indicates that 69 individual Senators were contacted in 36 states, and 165 individual Representatives in 38 states. We have also been informed that 58 of the Senators and 120 of the Representatives have replied generally expressing sympathetic interest and cooperation. Although the number of Institute members who responded represents only a little more than 2 per cent of the total membership, this group has been very active in their local communities in sponsoring discussions before their local Chambers of Commerce and Rotary Clubs; in distributing circular letters to their clients, and having the project publicized. Formal action endorsing the objective has been taken by the Chamber of Commerce of Huntington, West Virginia, the New Haven Chamber of Commerce, the Scranton Chamber of Commerce, and the Chamber of Commerce of Kansas City, Missouri.

A total of twenty-one state societies and five chapters have taken an active, cooperative part in contacting legislative representatives, passing resolutions, and publishing articles, and contacting local business groups.

Four prominent organizations, the National Association of Cost Accountants, the National Association of Credit Men, the American Bar Association, and the New York State Chamber of Commerce, which, together with the American Institute of Accountants, represent a combined membership of about 75,000 individuals, have formally endorsed the project and issued publicity on the subject. *Credit and Financial Management*, the monthly publication of the National Association of Credit Men, will publish in a forthcoming issue an article by Victor H. Stempf, president of the In-

stitute, entitled "Tax Simplification." The *Credit Executive*, the monthly publication of the New York Credit Men's Association, contained an article by Maurice Austin, chairman of the subcommittee on current legislation, entitled "Tax Simplification," in its February, 1944, issue.

Two other organizations, the American Bankers Association and the Tax Foundation, have expressed sympathy with the idea and have given publicity to the matter. The March, 1944, *Tax Review*, the monthly bulletin of the Tax Foundation, contained an article entitled "Tax Simplification," by Harley L. Lutz, which analyzes the broad problem and the various bills. The April, 1944, issue of *Banking*, the monthly magazine of The American Bankers Association, published an article, "A Step Towards Tax Simplification," by the chairman of this subcommittee.

Publicity was also maintained through continued editorials in *The Journal of Accountancy*, through press releases of a statement by the president on the need for a non-partisan tax commission now, and announcement of the adoption of the resolution by the tax committee at its meeting on February 19, 1944, endorsing the purposes of the Carlson and Forand bills and urging early action by Congress on them.

In addition to the flow of communications which were begun from Institute members and state societies and organizations, personal interviews were arranged with members of Congress and detailed correspondence on the subject was forwarded explaining the nature and purpose of this method of tax reform. During the past six months Institute representatives had a total of seventeen personal conferences with legislative representatives, including eight members of the House Ways and Means Committee and two members of the Senate Finance Committee, in an effort to interest these persons in the project and to build strong support for the pending bills.

An analysis of all the reactions during these interviews indicated that there was practically no chance for the establishment of an independent non-partisan commission this year. On the other hand, it was found that the idea of an advisory council was received with more cordiality on the basis that it would be practicable and desirable.

On March 7, 1944, the members of the executive committee and the committee on federal taxation were informed of the trend toward the advisory council idea and that, in accordance with the second choice indicated by the executive committee at its meeting on December 16, 1943, in the event that the establishment of a non-partisan tax commission proved impracticable, our support was shifted to the advisory council idea.

The subject of an advisory council was discussed with Colin F. Stam, chief of staff of the Joint Committee on Internal Revenue Taxation, who was very receptive to the idea and invited the Institute to submit a plan for the appointment and functioning of such a body. The scope and nature of the 1927 advisory council was reviewed and a plan drawn up to avoid the defects of that council and to achieve the objectives of the Institute's resolution.

The American Bar Association, which had been informed of the Institute's resolution and invited to support the project, requested the secretary, Mr. Carey, to attend a meeting of the section of taxation on March 21, 1944, in order to discuss mutual objectives. At that meeting the Bar Association representatives suggested that both organizations meet with Mr. Stam and submit a joint plan. The plans of each organization were reviewed by the members of the executive committee and the committee on federal taxation and, at a meeting on Wednesday, April 12, 1944, the president and the secretary met with members of the tax section of the Bar Association and drafted a joint plan which was presented to Colin F. Stam that day.

Mr. Stam informed the group that he would submit this proposal to the Joint Committee on Internal Revenue Taxation as soon as the pending tax simplification bills for individual income taxpayers had been cleared, and that he would suggest that members of the Institute and the Bar Association meet with the committee to explain and discuss the proposal further.

To summarize:

1. Regardless of the final outcome the subcommittee believes that the intangible benefits already derived from the Institute's efforts in behalf of this project, which is of great public interest, have justified the undertaking. It has established closer relationship and under-

standing between the Institute and government officials, and has had an excellent public relations value in bringing the American Institute of Accountants to the attention of the public in the role of leaders for a movement of major national importance. The importance of this project as a part of an effective postwar planning program has made the work all the more timely.

2. There is little question but that this project has enlisted so much support throughout the country that it has been of major influence in speeding up the work of the House Ways and Means Committee on the entire tax simplification problem.
3. It has, we believe, stimulated outside groups to undertake as a private project the rewriting of the entire tax structure.
4. The present status of the official negotiations is, in the opinion of your subcommittee, not entirely satisfactory for the reason that, apparently reflecting the attitude of the Senate Finance Committee Chairman, the chief of staff of the Joint Committee, and the Bar Association section of taxation, the trend seems to be toward creation of a more or less informal advisory group which might be restricted to consideration of particular technical questions, and might not be free to make recommendations on questions of policy. The activities of this subcommittee were designed to bring about the establishment by Congress as soon as possible of a qualified non-partisan commission composed of members of Congress, representatives of the Treasury Department and independent lawyers, accountants, and economists to write a simple revenue law which would express a permanent and consistent policy of federal taxation.

The distinction in objectives is clear. We plan to continue our attempts to achieve the goal outlined in the American Institute of Accountants resolution.

We may find it necessary to recommend that we dissociate ourselves from any acceptance of a modified plan as a final answer to the basic problem. This would leave us free to renew our drive for our full objective as soon as the political situation clears and is favorable.

#### *Over-all review of the federal tax law*

In the meantime, and so that some preliminary work on the basic project may go

forward, an analysis is now being submitted to the full subcommittee for consideration, which, in a preliminary way, at least, should expose the issues of the problem and establish a syllabus for work on an over-all review of the federal tax law. The material is grouped around and involves:

- (1) The basic concepts and policy determinations upon which a basic tax law should be based.

NOTE.—Under this heading special attention is being given to the question of the penalties and disabilities

- now imposed upon the use of the corporate form for doing business as well as the question of double taxation of corporate earnings.
- (2) The rewriting of the substantive law to achieve a basis for simplification.
- (3) The review of administrative and procedural matters.
- (4) Simplification of income tax return forms.

Respectfully submitted,

HARRY E. HOWELL, *Chairman*

April 24, 1944

### Report of the Committee on History

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee on history has had the very valuable cooperation of President Victor H. Stempf in its efforts to discover and preserve historical data. His letter addressed to the presidents of all state societies, in which he emphasized the importance of this work, has given additional impetus to this department of the Institute's activities.

The article in the April 1, 1944, issue of *The Certified Public Accountant* is another helpful contribution to this work. As noted therein, the Illinois Society of Certified Public Accountants has as-

sembled data concerning the progress of the profession since 1895, and the Wyoming Society reports a collection of material covering the period since the passage of the first accountancy law in that state in 1911.

Your committee is endeavoring to secure the interest of any who may be in a position to add to the Institute's store of historical material.

Respectfully submitted,

T. EDWARD ROSS, *Chairman*  
NORMAN E. WEBSTER  
ERNEST RECKITT

April 14, 1944

### Report of the Committee on Membership

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: It is fortunate indeed that the OPA has not attempted to put a ceiling on membership in our Institute, for in the year elapsed since the last spring meeting of the council membership has increased by 921, to bring the total present membership to 7,808 of which 5,839 are members and 1,969 associates. Five hundred and ninety six applications have been received since September 1, 1943, of which only 262 now remain to be acted upon. On September 1, 1943, with a somewhat smaller number of prior applications, there were 427 to be acted upon. This progress,

accomplished in spite of increasing pressure from all sides upon the staff and board of examiners bespeaks their selfless loyalty and devotion to the affairs of the Institute. This increase in membership has been accomplished without any pressure or drive whatsoever upon the part of your committee. Perhaps it is not necessary to seek the causes of our growth, but even in these times an unsolicited growth of over 13 per cent in one year does not merely happen. We feel that the prevailing financial conditions have had little to do with it, but rather that the problems forced upon accountants by the war have been so many and so difficult that they have gladly turned for help and guidance to



that bulwark of professional strength which the Institute has come to be during the many years of its existence. All of which in turn imposes upon the Institute a serious responsibility, to be found not wanting in the eyes of its members new and old, and to gird itself to be prepared to be of the greatest possible service to the membership in meeting the postwar problems which in their economic impact may be even more numerous, difficult, and of greater duration than those we are now facing and meeting.

Today 725 of our members, or nearly 10 per cent of the entire membership, are serving in the armed forces—400 in the army, 317 in the navy, 5 in the marines, and 3 in the coast guard. Of this total of 725, there are 560 holding commissioned officers rank. In these figures lie an indication of the qualities of leadership inherent in the profession as a whole, and your committee feels that the proper time has arrived for the Institute to gather to itself as much of this leadership as can be accomplished in a manner befitting its high standards and position in the affairs of the community.

In spite of our growth, less than one-third of the certified public accountants of the United States are members of the Institute. Not all of these non-members are qualified for membership it is true, but there are certainly a great many who are and who by their membership would add not only to their own stature but also to that of the Institute.

With the gracious aid of our secretary and assistant secretary (the latter now being entitled to a naval salute) in familiarizing the committee chairman with the past activities and problems of the membership committee, a long-range program has been developed, submitted to and approved by the executive committee, the objective of which is eventually to bring into the Institute at least a simple majority of all qualified certified public accountants of the United States.

We cannot emphasize too strongly that no drive or high pressure campaign is contemplated. First and foremost in our minds is the maintenance and improvement of the high standards of professional accomplishment and conduct so carefully developed and husbanded throughout the years.

Here is a brief outline of the program:

All non-member CPA's will shortly receive a letter from President Stempf outlining the approach of professional accounting societies to problems directly affecting every certified public accountant, and suggesting that development of the maximum capacity of the accountant for service to his community will be aided by membership in his state society and in the Institute.

Records relating to former members will be carefully examined and those who appear eligible to apply for reinstatement notified of the new rules governing reinstatement by individual letter and personal follow-up by local members of the committee.

From time to time members of the committee will be invited to encourage new membership through brief paragraphs in *The Certified Public Accountant*.

There is to be compiled and maintained an up-to-date list of members of state societies, and of CPA's who are non-members of either state societies or the Institute.

Local committee members will be asked to contact heads of firms in their localities for the purpose of informing staff members of the value of membership in a professional society.

The coöperation of membership chairmen of state societies in encouraging membership in both the state and national organizations will be sought.

Inquiries received since early 1943 regarding membership, on which no further developments have occurred (there are approximately 800 of these), will be carefully reviewed and followed up through correspondence or by local committee members.

Some attempt will be made to encourage the delivery of the Institute's literature to the home of the subscriber rather than to his business address.

The chairman is authorized to enlarge his committee in those localities in which such enlargement may appear to be proper.

It was soon apparent that the carrying out of this program, if only in part, would add greatly to the work of an already fully occupied staff. The suggestion was therefore made to the executive committee that the staff be increased by two employees to devote their entire time to the

processing of applications and such other duties as would arise through the adoption of this program. We are happy to say that the executive committee concurred in this suggestion, that one young lady has been engaged, and that every effort will be made to engage another.

The committee on membership will wel-

come suggestions from members of council as to ways in which its proposed program and present work may be carried out most effectively.

Respectfully submitted,

C. L. JOHNSON, *Chairman*

May 1, 1944

**Report of the Committee on Natural Business Year**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

First  
Quarter  
1944 1943 1942 Total

GENTLEMEN: No official program for the further development of the natural business year campaign has been undertaken during the current year; however, members of the committee located in every state of the Union and the District of Columbia have kept the subject alive, and used every opportunity to accelerate the trend.

Changed from fiscal year accounting period to calendar year	21	290	249	560
Changed from calendar (or fiscal) to a fiscal year accounting period.....	84	517	1,265	1,866
Total.....	105	807	1,514	2,426

Your committee considered the advisability of protesting the provision of the 1943 Revenue Act which provided for application of increased rates to fiscal year taxpayers, for fear that future rate decreases might not be made in the same manner. The Institute's tax committee felt that its policy adopted when the 1942 act was considered should be followed and no action taken until such time as future rate decreases were included in a proposed tax bill providing inequitable application to fiscal year taxpayers.

Your committee believes that the Institute's active campaign has produced many disciples in and out of the accountancy profession who are continually preaching the gospel of "The Natural Business Year."

Respectfully submitted,

WILLIAM J. CARTER, *Chairman*

Reports of the Commissioner of Internal Revenue provide the following information:

May 5, 1944

**Report of the Committee on Publication**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Demand for *The Journal of Accountancy* now exceeds the supply. Circulation, at an all-time peak of 21,750, has increased by about 3,000 in the past year. The total number of copies which can be printed is now limited by government regulations restricting the supply of paper available for magazines.

paper have been adopted. In April the text was reduced from 88 to 80 pages, following an earlier reduction from 96 pages. Several departments were condensed and one was discontinued. Previously, lighter weight paper had been substituted and the number of words on each page had been increased by reducing the width of all margins.

To comply with these requirements a number of economies in the consumption of

*The Journal of Accountancy*, like other publications, must continue to cooperate in conserving paper which is a critical

war material not currently available in sufficient quantities to meet all government and civilian requirements. As the official organ of a profession to which important wartime responsibilities have been assigned, *The Journal* is also obligated to circulate timely information, relating directly to the war, among a constantly increasing number of subscribers. A request for a supplementary allotment of paper has recently been filed with the proper authorities.

#### CONTENTS OF THE JOURNAL

The majority of articles published in *The Journal of Accountancy* from September, 1943, through May, 1944, the period covered by this report, emphasize wartime problems of accountants. Among the topics which have been presented are renegotiation and termination of war contracts, "V" loans, amortization of war facilities, tax problems of war contractors, postwar reserves, salary and wage stabilization, the effect of the war upon financial statements and reports, and problems in auditing under wartime conditions. Of the forty-four authors who have contributed signed articles published in the past nine months, sixteen are engaged in the practice of public accounting. Others include teachers of accounting; cost accountants and internal auditors; representatives of government agencies; members of the armed forces; attorneys; specialists in economics, finance, and statistics; and a commercial banker.

Editorials published in *The Journal* continue to inform subscribers, from month to month, concerning current developments of major interest to accountants including changes in Selective Service regulations, revisions in contract-renegotiation and termination procedure, new reporting requirements of government agencies, and trends in federal taxation. Among the official documents which have recently been reprinted, in full or in part, for the information of *Journal* readers are the Baruch Uniform Termination Article and statement of principles for determination of costs upon termination of fixed-price supply contracts, the Baruch-Hancock report on war and postwar adjustment policies, War Department cost interpretations applicable to audits of cost-plus-fixed-fee supply contracts, and interpreta-

tions of the Renegotiation Act by the War Contracts Price Adjustment Board.

#### JOURNAL CIRCULATION

Nearly two-thirds of the copies of *The Journal of Accountancy* placed in circulation each month are sent to persons who are not members of the American Institute of Accountants. An analysis based upon the most recent annual audit by the Audit Bureau of Circulations classifies subscribers and members as follows: accountants and accounting firms, 47 per cent; corporation executives, 14 per cent; students of accounting, 6 per cent; members of the armed forces, 6 per cent; teachers, educational institutions, and libraries, 3 per cent; federal, state, municipal officials and their staffs, 3 per cent. The remaining subscribers are distributed among several smaller groups or unclassified.

#### JOURNAL ADVERTISING

Revenue from advertising published in *The Journal of Accountancy* for the eight months beginning in September, 1943, and ending in April, 1944, amounted to \$15,186. This total exceeds the corresponding figure for the preceding fiscal year by 24 per cent and establishes an all-time record. Letters have been received from the Treasury Department and the Red Cross expressing appreciation for advertising space contributed by *The Journal* in recent issues.

An increase in advertising rates, amply justified by larger circulation, has been approved by the committee to become effective July 1st. The present rate schedule will continue to apply throughout the life of contracts in effect on that date, none of which will extend beyond July 1, 1945. As most advertising space in *The Journal* is sold on an annual basis, the new schedule will not produce substantially increased revenue in the current fiscal year.

#### THE CERTIFIED PUBLIC ACCOUNTANT

Like *The Journal of Accountancy*, *The Certified Public Accountant* is subject to wartime restrictions upon the supply of paper available for magazines. The purpose of this publication is to present information about the profession of interest to members of the American Institute of Accountants. Circulation among non-members has never been promoted, but

subscriptions were formerly accepted at a price of \$1.00 a year. On December 31, 1943, such subscriptions totaled about 500. In order to conserve paper, no additional subscriptions or renewals have been accepted since that time. Present subscriptions, none of which extend beyond the end of 1944, will remain in effect until the expiration date. All information of general interest about activities of the accounting profession will be published in *The Journal of Accountancy*. *The Certified Public Accountant* will become exclusively a membership bulletin, circulating among all Institute members and associates.

Since January 1, 1944, this publication which previously appeared on the fifteenth of each month has been converted to a flexible time schedule, permitting the printing of an issue at any date necessary to provide prompt coverage of important accounting developments such as the recent release by the Securities and Exchange Commission referring to independence of accountants; the Institute's proposal for establishment of a non-partisan commission to help simplify tax laws; a ruling of the Joint Price Adjustment Board with respect to renegotiation reserves; comment by the chief accountant of the SEC concerning treatment of provisions for renegotiation in financial statements filed with the Commission; cooperation between the American Bar Association and the American Institute of Accountants in the establishment of a national conference group to consider mutual problems of the two professions.

#### OTHER PUBLICATIONS

As in previous years, proceedings of the 1943 annual meeting of the American Institute of Accountants were published in pamphlet form. One copy of this text, entitled "Accounting Problems in War Contract Termination, Taxes, and Postwar Planning," was sent without charge to each Institute member and associate. Five thousand additional copies have been sold at a price of one dollar, providing revenue in excess of the cost of printing the entire edition. One section of the proceedings, containing papers presented at the technical session on war-contract termination problems, was published immediately after the meeting and widely circulated. Proceedings of the conference

on federal-government accounting sponsored by the American Institute of Accountants in cooperation with the United States Treasury Department, the General Accounting Office, and the Bureau of the Budget, early in December, 1943, were also published.

Because of the shortage of paper and manpower, the 1943 edition of the Institute *Yearbook* was omitted. To present some of the more important information normally included in the *Yearbook*, a pamphlet was published containing names of officers, members of council and committees, and new members and associates admitted to the Institute since publication of the 1942 *Yearbook*. Another pamphlet includes reports presented by officers, council, and committees at the midyear meeting of council in May and the annual meeting of the Institute in October, 1943. It is expected that the next edition of the *Yearbook* will be published late in 1944.

The *Accountants' Index*, Sixth Supplement, is scheduled for publication in the coming summer. This volume will catalog all books, articles, pamphlets, and government publications relating to accounting which have appeared between January 1, 1940, and December 31, 1943. In conjunction with the six earlier editions, it will provide a guide to practically all accounting literature in the English language which was in print in 1912 or has since been published.

Although publication of books, except *Unofficial Answers to Examination Questions*, was discontinued in 1938, a total of 2,839 volumes were sold in the first seven months of the current fiscal year, producing \$5,545 in revenue. This represents a decline of about 150 volumes, but an increase in revenue of about \$200, in comparison with the corresponding period in the preceding fiscal year. Best sellers were *Unofficial Answers to Examination Questions*, May, 1939, to November, 1941: 619 copies; *Duties of the Junior Accountant*, published in 1933: 594 copies; and *Duties of the Senior Accountant*, published in 1932: 403 copies.

#### FUNCTION OF INSTITUTE PUBLICATIONS

The primary function of Institute publications is to report and discuss, promptly and adequately, all significant develop-

ments affecting the accounting profession. Much of the material published is not readily accessible elsewhere. More than 15,000 reprints of articles and editorials published in *The Journal of Accountancy*, from September, 1943, through April, 1944, have been sent to members of Congress, government officials, leaders in trade and professional associations, and others interested in the topics discussed.

War brings new responsibilities to Institute publications. Problems in accounting practice multiply and become more complex. Numerous government regulations must be reported and interpreted. Speed in presenting information becomes more essential, but technical accuracy must not be sacrificed. Printing

expense has increased, reflecting higher wages and material cost, and a further advance is expected. War also brings new opportunities to serve present members and subscribers, and to extend the influence of Institute publications. Success in meeting the wartime challenge is not easily measured. Circulation and advertising revenue provide the most tangible evidence of accomplishment.

Respectfully submitted,

FREDERICK H. HURDMAN, *Chairman*  
I. RUSSELL BUSH  
PERCY R. EVERETT  
ALBERT E. HUNTER  
ALAN P. L. PREST

May 3, 1944

### Report of the Committee on Public Information

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Under normal conditions, your committee is concerned with the publication and distribution to the public of information relating to the professional work of the certified public accountant. Before the outbreak of war, your committee had published five public-information pamphlets, distribution and sale of which has continued to the present day. Owing to the emphasis placed by the executive committee on war problems in so far as the activities of the Institute are concerned, publication of items of information of this type has been discontinued for the duration. For the present, the public information activities at Institute headquarters are confined to staff operations.

Public information work at Institute headquarters has reflected, of course, the continued interest of the profession and of the Institute in business problems arising out of the war. A large volume of information has been distributed to the press, to outside organizations, to Congress and other agencies in connection with problems of federal taxation, termination of war contracts, renegotiation and related subjects.

Sources for the information distributed have included Institute committees, activities of Institute officers in connection with

public problems and editorials appearing in *The Journal of Accountancy*. A number of items, including news statements, have been devoted to the current effort of the Institute to promote simplification of federal taxes.

The most recently completed undertaking was the making of publicity and other public relations plans in connection with the series of state society wartime accounting conferences held in April. Considerable space was given in the newspapers to reports covering addresses presented at the conferences by the officers of the American Institute and the general chairman of the committee on federal taxation.

Similarly, plans were made and carried out for the release of news and other information in connection with the Conference on Federal Government Accounting held in New York last December by the committee on governmental accounting of the American Institute, with the cooperation of the United States Treasury Department, the Bureau of the Budget, and the General Accounting Office. Public information plans in connection with this meeting resulted in good news publicity for the reforms in governmental accounting advocated by the American Institute.

Tax simplification has been a public information subject of major importance, and activities in this connection at Institute

headquarters have brought this subject prominently into the news. A special news release, prepared for use by state societies of certified public accountants in the newspapers of their own states, was widely used, and served to center considerable public attention on the efforts of the accountancy profession to reform the tax laws. This release was based upon the contents of a printed analysis of the opinions of 600 members of the American Institute in connection with tax simplification.

Coöperating with representative Frank Carlson of Kansas in his efforts to bring about enactment of tax reform legislation, the Institute distributed widely the text of House Joint Resolution 211, known as the Carlson bill. This particular distribution, which included a mailing list of chief editors of newspapers, resulted in a considerable number of news and editorial references to the need for changes in the revenue laws.

Other information items sent to the press and to other agencies in connection with American Institute activities have included a statement by the president of the American Institute in connection with the presidential veto of the tax bill; a resolution calling for formulation of a basic national tax policy passed by the committee on federal taxation; the text of a letter sent to the committee on depreciation of the National Association of Railroad and Utilities Commissioners by the committee on accounting procedure of the American Institute; an analysis of the results of a study into current corporate profits; an accounting research bulletin devoted to the treatment of renegotiation refunds in the current financial statements of contractors and subcontractors subject to the provisions of the War Profits Control Act; a number of news releases based on papers presented at the conference on federal government accounting.

Institute headquarters cooperated in sending out to local committees of state societies, National Association of Cost Accountants and other groups, press information relating to the appearances of representatives of the Institute, including its president, secretary, director of research and others, as speakers on accountancy and other problems.

Coöperation in the preparation of a news release announcing the formation of a joint national conference representing the American Bar Association and the American Institute of Accountants was another activity. A large number of copies of the proceedings of the Conference on Federal Government Accounting have been sent to newspaper editors, members of government, teachers, national organizations and others.

In general, the public information program continues to be concerned with securing expression of the ideas and proposals of the accountancy profession in the press and through other channels. It is interesting to report in this connection that, in the course of the recent wartime accounting conferences held in seven states, the president of the American Institute appeared as a co-broadcaster with prominent local citizens in four business centers, namely, Houston, Tulsa, Omaha, and Kansas City. The public-information program has proven beyond any doubt that the accountancy profession and its national and state organizations are gaining in recognition by the press, by business, and by the general public as sources of reliable information in connection with economic problems of present-day and postwar importance and interest.

Respectfully submitted,

MAURICE E. PELOUBET, *Chairman*

May 5, 1944.

### Report of the Committee on Public Utility Accounting

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The war program of the executive committee restrained this committee from the initiation of any activities

and limited it to the consideration of such specific problems as might be submitted to it for cooperative effort with the committees on accounting procedure and auditing procedure.

The progress on such matters since the last previous meeting of council is as follows:

#### NORTHWESTERN ELECTRIC COMPANY CASE

The petition for a writ of certiorari was granted by the Supreme Court of the United States. The executive committee authorized the filing of a brief *amicus curiae*. In that brief the Institute pointed out that the order of the Federal Power Commission was not supported by accepted accounting principles as had been alleged erroneously in a brief filed in behalf of the Commission. The Institute carefully refrained from expressing any opinion on the merits of the case itself. The court upheld the order of the Commission. However, the intervention by the Institute was the first step in affirming the authority of the Institute as the exponent of the informed opinion of professional accountancy.

#### TELEPHONE ACCOUNTS

The proposed revision by the Federal Communications Commission of its system of accounts for telephone companies has been postponed for the duration of the war. No further action has been taken in that matter by this committee.

#### DEPRECIATION REPORT BY NARUC

In cooperation with the committee on accounting procedure, the chairman of this committee participated in the drafting of a letter, dated January 28, 1944, addressed to the committee on depreciation of the National Association of Railroad and Utilities Commissioners. Also, the chairman of this committee and the acting chairman of the committee on accounting

procedure appeared personally before the NARUC committee at a hearing held on February 2, 1944, and discussed the Institute's position with respect to the report of the NARUC committee.

Two major points of difference were expressed on behalf of the Institute. The first point rested on the definition of depreciation accounting by the Institute as purely a matter of allocation of cost and not at all a matter of measurement of loss of value. The second point was an opposition by the Institute to a proposed retroactive application of a narrowly conceived formula of straight-line depreciation.

There seems to be an impression that the cooperation of the Institute has been helpful.

#### AMERICAN TRANSIT ASSOCIATION CONFERENCE

Responding to an invitation addressed to the Institute, the chairman of this committee participated in a conference of the accounting division of the American Transit Association in New York on April 26, 1944. The subject assigned was "Depreciation practices during and after the war." Considerable satisfaction at the cooperation of the Institute was expressed by the officers of the Transit Association.

#### MISCELLANEOUS MATTERS

Some requests for information or advice have come to the office of the Institute and have been referred to this committee. They have all been answered.

Respectfully submitted,

HENRY A. HORNE, *Chairman*

May 5, 1944.

## Report of the Committee on State Legislation

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: During the current year the legislatures of seven states were in session and seven bills affecting the profession were introduced in the legislatures of four of these states. Three of the bills were enacted into laws.

In Kentucky a bill was passed which abolished the Division of Professional Regulations and returned to the various state boards (including the Kentucky State Board of Accountancy) the authority and functions previously held by each board. Another bill which would have granted CPA certificates by reciprocity to accountants licensed by other states failed to pass.

A bill, introduced in the Mississippi senate, proposing the issuance of CPA certificates to certain public accountants died in the senate.

In the senate of South Carolina a bill was introduced proposing amendments to the provisions of the present law relating to the examination of applicants to practice as public accountants, to require the state board to rotify applicants as to whether or not they passed the examination, and providing a method for applicants to secure examination papers from the board of examiners. This bill failed to pass.

Three bills affecting the profession were introduced in the general assembly of Virginia. Two of these were enacted into laws, the other relating to the educational and experience requirements of applicants for the CPA certificate failed to pass. One of the laws enacted by the Virginia assembly relates to the composition and appointment of the state board of accountancy; provides for terms of five years instead of three, staggers the appointment of members, restricts membership on the board to two successive terms, and empowers the governor to remove any member for misconduct, incapacity, or neglect of duty. The other law requires all state agencies authorized to conduct examinations of applicants for admission to practice or pursue any profession, vocation, trade, calling, or art to file a copy of the examination with the secretary of the commonwealth as a public record.

The Institute's office followed these bills from their introduction in the legislatures

of the several states until disposition was made of them. It continued the policy of keeping the members of the committee, officers of the state societies and the state boards of accountancy, informed of the legislative developments as they occurred.

For the past three years the committee has had as its objective the preparation of model CPA bills, both the restrictive and nonrestrictive type. At the meeting of council last fall it presented preliminary drafts of model bills for consideration of all parties interested and stated that revised drafts would be submitted to this meeting. The preliminary drafts were submitted to Spencer Gordon and William M. Aiken, of counsel for the Institute, who have prepared a revised draft of the restrictive bill, a copy of which was mailed to the members of council with the hope that many helpful suggestions will be made at this meeting.

In the past several years council has approved certain broad general principles as a basis for accountancy legislation. The committee felt that these principles had been included in the model bill submitted last fall and also believes that they have been continued in the latest draft.

In the preparation of this draft, counsel has attempted to incorporate these principles into a bill which will successfully withstand the legal tests to which such legislation is liable to be subjected. The latest draft is modeled after a bill introduced in the New York legislature in 1939 but which failed to pass. It should not be understood that either the draft or the 1939 bill has the approval of the New York State Society, or of the board of examiners of that state.

It is the hope of the committee that a free discussion of the question raised by this draft will be had on the floor of this meeting so that the committee may have the benefit of opinion of council. It is also hoped, however, that no specific effort will be made to rewrite the bill on the floor of the meeting but that it will be referred back to the committee for redrafting in the light of the views expressed here.

Respectfully submitted,

T. DWIGHT WILLIAMS, *Chairman*

May 1, 1944



**Report of the Committee on Technical Sessions**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on technical sessions met in New York City on Friday, April 7th. Messrs. Richardson, Carey, Winton, and Gilman were present.

During the course of the meeting the following tentative draft program was developed for the 57th annual meeting of the American Institute of Accountants, October 16-19, 1944, at St. Louis, Missouri.

Monday (Oct. 16)

Registration, and meetings of council, state society presidents, accountancy examiners, Advisory Council, and Association of Certified Public Accountant Examiners

Tuesday (Oct. 17)

9:30 A.M. General Session, including outside speaker of national prominence to deal with the subject: "How Can Private Enterprise Meet Problems of a Peacetime Economy"

2:00 P.M.

Technical Sessions:

"Selection of Accounting Personnel"

"Independence of Professional Accountants"

"Recommended Reforms in Governmental Accounting"

—Government Corporations

—Administrative Agencies

"The Legal and Accounting Professions Prepare To Meet Problems of Mutual Interest"

8:30 P.M.

Technical Sessions:

"The Problem of Reporting Annual Income"

—Earnings Per Share

—New Form of Income Statement

Wednesday (Oct. 18)

All-day technical session on War Contract Termination:

9:30 A.M.

Report of Committee on Termination of War Contracts

—Auditing Aspects of Contract Termination

2:00 P.M.

Accounting Aspects of Contract Termination

Thursday (Oct. 19)

All-day technical session on Taxation:

9:30 A.M.

"Tax Reform from an Accounting Viewpoint"

—Tax Simplification

—Tax Legislation

—Administrative Improvements

—Accounting v. Tax Concepts

—Time of Realization of Income

—Proposed Changes in Depreciation Provisions

2:00 P.M.

"Current Tax Practice Problems"

—Important Recent Tax Accounting Decisions

—Tax Problems Arising from Renegotiation

—Consolidated Returns

—Capital Gains Provisions

—Problems of Fiscal Year Taxpayers

—Recomputation of Amortization of Emergency Plant Facilities

—Carry Back and Carry Forward—Net Operating Losses or Unused Excess Profits Credit

Your attention is called to the fact that no provision has been made for the annual dinner. If such an annual dinner is to be included as part of the program, then 7:30 P.M. Wednesday, October 18th, would appear to be an appropriate time.

The committee recommends and has tentatively provided for a joint meeting of council and the state society presidents on the evening of Monday, October 16th.

From the tentative outline as submitted above it will be seen that special emphasis has been given to two subjects, namely War Contract Termination (to which the entire day of Wednesday, October 18th, has been devoted), and Taxes (to which the entire day of Thursday, October 19th, has been devoted). Your committee believes

that these two subjects are of such particular interest at this time as to justify this special emphasis.

The all-day session on War Contract Termination will be planned in cooperation with the committee on termination of war contracts, while the Tax session will be outlined and conducted with the cooperation of the committee on federal taxation.

The selection of and invitation to session chairmen and speakers are now well under way.

Respectfully submitted,  
 STEPHEN GILMAN, *Chairman*  
 JOHN J. LANG  
 MARK E. RICHARDSON

May 2, 1944

### Report of the Committee on Terminology

TO THE COUNCIL OF THE  
 AMERICAN INSTITUTE OF ACCOUNTANTS:  
 GENTLEMEN:

#### DEPRECIATION

The definition of depreciation suggested in the committee's report of October 18, 1943, was approved by the committee on accounting procedure and the report was circulated to the membership of the Institute as Accounting Research Bulletin No. 20. It has elicited considerable comment, and one suggestion has been made to which effect might perhaps advantageously be given in a revision of the definition. It is that a specific reference should be made to salvage, and the point could be covered by inserting the words "less salvage, if any" after the words "tangible capital assets" in the definition. As amplified the definition would read:

Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation. Depreciation for the year is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to be a measurement of the effect of all such occurrences.

A number of suggestions have been made as to the description of the annual charge for depreciation in financial accounts. After considering the various comments received, your committee suggests that it would be helpful to describe the annual charge as "depreciation allocated to the year" in

order to emphasize the fact that depreciation accounting is a process of allocation.

Two members of the NARUC committee on depreciation submitted comments on your committee's definition. An opportunity to deal with these suggestions arose in the form of a request for comments on the tentative report of the NARUC committee, and the opportunity was availed of. The letter, dated January the 28th, addressed by the chairman of the committee on accounting procedure to the chairman of the NARUC committee, deals at length with the definition of depreciation. It is the strong feeling of your committee on terminology that straight-line depreciation has sufficient practical merits in given situations to justify its adoption and that it is neither necessary nor desirable to claim for that method characteristics, such as being factual, which it does not possess.

Your committee's definition of depreciation has become particularly timely in view of the current problem, in the public-utility field, of dealing with companies which have, with regulatory approval, used the retirement reserve method. If such companies are now required to use depreciation accounting, it is important that careful consideration be given to the manner of effecting the change, and this necessitates a clear understanding of the true import of the depreciation charge; your committee is following developments in this respect and hopes to cover the matter in its next report.

#### CURRENT ASSETS AND LIABILITIES

The article prepared by Mr. Herrick, to which reference was made in the last report, appeared in the January, 1944, issue

of *The Journal of Accountancy*, and the April *Accounting Review* carries an article by Stephen Gilman in which he suggests an abandonment of the "current" groupings. It seems desirable that the committee on accounting procedure consider whether or not there should be either some modification of present practice or a fundamental change in classification.

It seems evident that bankers, lawyers, and others who are called upon to deal with the question, find difficulty in defining current assets and liabilities satisfactorily, and are apt to rely on the procedure of requiring that they shall be determined in accordance with generally accepted accounting principles. If accounting views on the question change materially thereafter, important questions are likely to arise as to whether the reference to the accounting principles in such cases is to be interpreted as referring to the principles recognized at the date when the contracts were made, or the principles recognized at the later time when effect was being given to them.<sup>1</sup>

A pronouncement by the accounting procedure committee on the subject would be helpful and timely.

#### CONSISTENCY

Numerous suggestions have been made to your committee that it discuss the word "consistent" as used in the phrase "in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." In particular, an indication has been sought of your committee's views on the question of the relation between consistency and comparability. In your committee's view the phrase quoted from the standard form of certificate implies consistency in the principles employed and the manner of their application. In relation to similar situations, it does not call for the same treatment of a given element in the accounting if the situation with respect to

that element has materially changed. Consistency, in its judgment, does not assure comparability except in so far as comparability may be attained by accounting methods.

An illustration may be found in the problem of the proper treatment of renegotiation at the end of 1942 and at the end of 1943. The governing principle is that the accounts should reflect all liabilities which can be estimated with a reasonable degree of approximation. At December 31, 1942, the amount of the liability was, in most cases, wholly uncertain and the application of the principle did not, therefore, require provision in the accounts for the liability, but only an appropriate note of its existence.<sup>2</sup>

At the end of 1943 the elements of liability were in many cases reasonably ascertainable. Where this was so, the accounting principle above cited called for inclusion of the liability among current liabilities in financial statements.<sup>3</sup> If, therefore, a company made no specific provision for renegotiation in 1942, but made such provision in 1943, it was not applying different accounting principles in the two years, nor applying any principle in two different manners. Whether the difference in treatment may have so seriously affected the comparability of the two statements, that fair disclosure may call for a statement on this point is another matter. Your committee has noted with satisfaction the number of cases in which corporations have restated the accounts for 1942 in order to overcome the lack of comparability which would have otherwise existed.<sup>3</sup>

Your committee does not feel that the subject of "consistency" should be dealt with solely as a matter of terminology; it suggests that it be given further consideration by the auditing and accounting procedure committees.

Respectfully submitted,

GEORGE O. MAY, *Chairman*  
ANSON HERRICK  
WALTER A. STAUB

May 8, 1944

<sup>1</sup> An interesting discussion of a similar question, such as the meaning of the word "minerals" when used in an old statute which is being applied today, is contained in the chapter on Law and Language which appears in Lord MacMillan's *Law and Other Things*.

<sup>2</sup> See Accounting Research Bulletin No. 15.

<sup>3</sup> See Accounting Research Bulletin No. 21.

## COMMITTEES ON WAR ACTIVITIES

## Report of the Committee on Accounting and Statistical Reports by Industry

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on accounting and statistical reports by industry has held no meetings since the annual meeting in October, 1943, as no specific problems have been presented which called for action of the whole committee. However, it is believed that the function of the committee is to cooperate with other agencies in helping to make accounting and statistical reports by industry as simple and effective as possible and to relieve industry from any unnecessary burden, especially during the war period. This report, therefore, summarizes the activities of members of the committee in connection with accounting and statistical reports by industry.

The chairman was one of three members of a special subcommittee of the Advisory Committee on Government Questionnaires which, in cooperation with the Bureau of the Budget, assisted in drafting the revised OPA financial reporting forms A and B. Form A, which was originally twenty-six pages legal size and had been revised in 1942 to twenty pages, was reduced to four pages letter size, and Form B, which was originally twelve pages legal size and had been revised in 1942 to four pages, was reduced to four pages letter size. Form A, the annual financial report, now consists of four schedules as follows:

Statement of profit and loss  
Balance-sheet  
Analysis of sales  
Summary of surplus and surplus reserves

Form B consists of two schedules as follows:

Statement of profit and loss  
Analysis of sales

In connection with this revision of forms A and B, the special subcommittee of the Advisory Committee on Government Questionnaires held several meetings in New York and Washington and investigated the uses made by several sections of the OPA of the data called for on these financial reports.

Arrangements were made for sample copies of the revised forms A and B to be sent to members and associates of the Institute.

Albin D. Strandberg, a member of the committee, met in January with officials of the Controlled Materials Plan Division of the War Production Board, to consider possible revision of the Controlled Materials Plan Accounting Manual. Following this meeting the committee submitted a brief report covering the questions raised.

The chairman of the committee is now serving as a member of the subcommittee of the Advisory Committee on Government Questionnaires, which is dealing with revision of standard procurement forms numbers 1 and 2 of the War Department.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*  
GEORGE COCHRANE  
WARREN W. NISSLEY  
ALBIN D. STRANDBERG

May 4, 1944

## Report of the Committee on Accounting Manpower

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the October, 1943, meeting of council, administration of the Selective Training and Service Act has been marked by much confusion, especially since the first of the current calendar year. For several weeks there were almost daily pronouncements of policy, that because of

their contradictions or inconsistencies, made confusion worse confounded for registrants and their employers.

This situation, so unfortunate and so unhappy, for registrants, their families, and their employers, because of the uncertainties created, apparently had its origin in a memorandum from the President of the United States to the Director of Selective

Service, which in turn through the machinery of the Selective Service administration was communicated to local boards. This was taken by local boards as a direction to induct, with few exceptions, all physically fit male persons under 26 years of age, and to postpone induction of men over that age only if they were engaged in activities which could be considered essential from a narrow viewpoint. The immediate result was the temporary practical elimination of the broader basis theretofore existing for employers' requests for occupational deferment. Some local boards, for instance, were reported to have concluded that Local Board Memoranda No. 115 and No. 115B defining the general bases for occupational deferment, listing essential activities and critical occupations and prescribing procedures, under certain conditions, with respect to registrants in critical occupations, had in effect been abrogated, and such boards began to cancel occupational deferments granted or to refuse to consider applications for such deferments. State Selective Service directors in some states were reported to have canceled then existing replacement schedules effective for accounting firms, and/or refused to consider new schedules when offered for filing. In some cases appeals from immediate reclassification into I-A by local boards, of registrants covered by replacement schedules that were summarily canceled, were reported to have been unanimously denied by appeal boards, precluding Presidential appeal.

The condition into which the draft situation had been thrown evoked strong protests and eventually saner procedures were adopted that brought operations by local boards into line with Local Board Memoranda No. 115 and No. 115B; and replacement schedules continued effective, or new schedules were accepted by at least some state Selective Service directors. Throughout this period of confusion, your committee endeavored to keep informed on developments, and in *The Certified Public Accountant* of April 1, 1944, published a statement which gave to the membership of the Institute, the situation as it then appeared on the basis of information obtained by the committee.

On April 4, 1944, Local Board Memorandum No. 115, which had been amended in January, 1944, was again amended. The

amendment, which is still effective, provided that a registrant, ages 18 through 25 (other than a registrant who has been found to be disqualified for any military service or found to be qualified for limited service only), may not be considered a "necessary man" entitled to be placed in Class II-A or Class II-B unless

- (a) The state director of Selective Service of the state in which the registrant's principal place of employment is located has endorsed the application for deferment, or
- (b) The Selective Service director specifically authorizes the classification, and the local board determines that the registrant is, in certain named occupations.

The amendment also provided that a registrant, aged 18 and over, may be considered for deferment into Class II-A and Class II-B, who, by reason of his occupation, is making a contribution in support of the war effort or in war production, provided he has been found to be disqualified for any military service or to be qualified for limited service only.

The age factor has been given added importance in the classification of registrants. Local Board Memorandum No. 115, as amended, provides, among other things, that

- "(b) For registrants ages 26 through 29, the requirement that a registrant must be 'a necessary man' in war production or in support of the war effort will be strictly applied.
- "(c) For registrants ages 30 and over, the requirement that a registrant must be a 'necessary man' in war production or in support of the war effort, will be applied less strictly with the increased age of the registrant."

Further, with respect to fathers, it is provided that:

- "(b) Fathers, ages 26 through 29, if other factors are equal, will normally be accorded occupational deferment in preference to all non-fathers.
- "(c) Fathers, ages 30 and over, if all other factors are equal, will normally be accorded more liberal consideration for occupational deferment than fathers under the age of 30 and non-fathers."

"Replaceability" continues to be a paramount test in determining whether or not a given registrant is a "necessary man"

Orders to local boards have given precedence to the reclassification of registrants ages 18 through 25, and to the processing of them for induction, so that induction of registrants ages 26 and over has in effect been postponed for an indeterminate, though for those in the lower age brackets perhaps only a short, time.

A by-product of the stirring about during the period of confusion has been a suggestion that steps be taken, legislative or otherwise, to force registrants classified as IV-F who are not engaged in essential activities, to change their employment into war production or into work in support of the war effort. Efforts were made to bring about the enactment of national service legislation that had been pending in Congress for some time. More recently there has been introduced in Congress a bill known as the Brewster-Bailey bill. According to a newspaper report, this bill includes three main features as follows:

- (a) Provision for the immediate classification as available for military service, subject only to a routine appeal, of any registrant, age 18 to 45, who leaves an essential job without his draft board's permission.
- (b) Authority to the Director of Selective Service to designate types of deferred or physically rejected registrants, and older men in those categories who are not engaged in essential work, into specified essential work in which there is a manpower shortage.
- (c) Provision for classification as immediately available for military service, of registrants classified as IV-F and those now considered too old for military service, who fail to heed a work directive within a specified time. They would be inducted with special Army or Navy service units, in which their work would consist of activities necessary to support and maintain fighting members of the armed forces, or chores on farms or in canneries.

At a hearing on this bill, Army and Navy representatives are reported to have been insistent that some form of legislation to solve the manpower problem was necessary. However, a senator is said to have commented that there were no signs now that this bill could be passed. Also pending

in Congress, is the earlier introduced, Austin-Wadsworth bill, which provides for national service on a far broader scale, for men and women, and consequently probably is even less likely to pass.

The list of critical occupations which was attached to Local Board Memorandum No. 115 prior to the April 4, 1944, amendment, was continued in effect with that amendment. As to accountants, this list includes, among others, as a critical occupation, "accountant" with this definition:

"Included under this title are certified public accountants or those persons who have comparable training and responsibilities. They must be engaged in devising, installing and controlling accounting systems, and assume extensive responsibilities for the examination and verification of records and prepare comprehensive financial reports based thereon. It does not include persons who perform routine accounting, auditing and bookkeeping duties under general supervision."

This definition is not wholly acceptable to your committee. The second sentence in the definition, taken literally, would exclude from the classification any accountants who in addition to assuming "extensive responsibilities for the examination and verification of records and (preparing) comprehensive financial reports based thereon," did not also devise, install and control accounting systems. On January 14, 1944, after seeing a draft of the definition it was pointed out in a communication addressed to the authorities responsible for the definition that

"Public accountants frequently devise and install accounting systems. However, controllers and other principal accounting officers employed by corporations 'control' accounting systems. Again, many highly trained accountants in most responsible positions, assume extensive responsibilities for examination and verification of records, and prepare financial reports based thereon, but do not devise and install accounting systems. Accountants who specialize in system installation are likely to do less of the auditing work and report preparation. The fact that there are degrees of specialization in types of accounting work does not, of course, reduce the importance of each type."

The comparatively slight changes in wording necessary to cure the infirmities

your committee found in the definition, were suggested. But beyond an acknowledgement of the suggested changes and a statement that they would be given consideration, no action resulted. It may be that in the confusion and turmoil that shortly thereafter arose in the administration of the Selective Training and Service Act, the matter was lost sight of or was tabled for matters considered more important at the time.

In November last year, your committee was requested by the National Roster of Scientific and Specialized Personnel to assist in the devising of a check list which the Roster was using in connection with its questionnaire for registration of accountants of professional level. Suggestions were submitted to the director of the Roster, as requested.

Also in November, 1943, your committee was requested by the Roster to review a draft of material purposed by the Roster for personnel of the United States Employment Service, to assist the latter in distinguishing accountants of professional level from bookkeepers and record keepers, and also to aid in judging those who claim training, experience and responsibilities comparable to those of certified public accountants. While the suggestions made were not adopted in identical form, the substance of the material ultimately released by the Roster did contain definitions and descriptions supplied by your committee at this time, or at other times in other connections.

Last November your committee was requested to suggest names of professional accountants in or within easy reach of, Washington, to constitute a panel that the National Roster of Scientific and Specialized Personnel could consult when evaluating claims for deferment filed in behalf of registrants in the professional field, and which had been referred to the Roster for recommendation as to action. Your committee complied, and it is understood that those suggested for the panel accepted appointment, and have rendered eminently satisfactory service.

Another problem that has engaged the attention of your committee because of its relation to accounting manpower, is the War Manpower Commission's rule for determining the essentiality of an establishment as distinct from the essentiality of an

activity, as contained originally in WMC field instruction No. 53. That instruction read in part:

"(b) Whenever the essential activities of an establishment are not separate and distinct from those which are unclassified or non-deferrable, as is the case when the same set of workers is engaged in both sets of activities, the entire establishment should be designated as essential if approximately 75 per cent of its activities are essential."

Under date of November 1, 1943, this was followed by Supplement No. 1 which read as follows:

"In some regions the offices of the War Manpower Commission have been designating establishments as essential when as little as 50 per cent of the establishment's activity has been devoted to production of essential items. Where this practice has been followed, all establishments should be put on notice that henceforth 75 per cent of their activities must be devoted to the production of essential items. If they wish to remain on the essential list, they should be required to declare their intentions of qualifying under the 75 per cent requirement and indicate when such adjustment can be completed. A reasonable time should be allowed for making adjustment to the 75 per cent level. Plants should be required to have 60 per cent of their activity devoted to essential production within 60 days and 75 per cent in not more than six months as a condition of retaining their classification as an essential establishment. Establishments not already designated as essential should not be so designated unless at least 75 per cent of their activity is devoted to the production of items included in the essential list."

Following the promulgation of Supplement No. 1 to Field Instruction No. 53, it became apparent that in various areas of the country, professional accounting firms would not be able to meet the condition prerequisite for declaration as an essential establishment, namely, that not less than 75 per cent of their services was being given to activities engaged in war production or in support of the war effort. It also was apparent from the language of the Field Instruction and the supplement, that both were written for manufacturing establishments, while they also were applicable to service organizations. Your committee

early explored the possibility of some revision of the rule that would give recognition to the realities of professional accounting practice as these varied in different sections of the country in accordance with variations in the economic activities in these sections. It was pointed out that in certain areas predominantly industrial, the character of professional practice, generally speaking, would probably follow very much the economic pattern of the area; whereas in localities such as New York City, which is not predominantly industrial, accounting practices would probably generally reflect that condition. The committee received no encouragement in its efforts to obtain some modification of the rule.

Some time after the initial activities of the committee on the problem, a new approach was made to War Manpower Commission authorities in Washington. Among other things, it was pointed out that many accounting firms handling a substantial amount of work for essential activities could not in important areas meet the 75 per cent qualification except by divesting themselves of clients not considered essential and having portions of their staffs idle in the interims between services to different essential clients—an obviously absurd situation. A more sympathetic attitude was encountered in these later discussions, and with the idea of using the New York City area as a testing ground, a conference was arranged with the New York regional director, whose jurisdiction includes the New York City area.

The initial conference was devoted primarily to the presentation of the professional accountants' problem in meeting the 75 per cent test and to a preliminary exploration of interpretations of the rule that would take into consideration differences between professional service activities and establishments engaged in the production of physical things. After some delay, a second meeting was held, participated in also by representatives of the area director's office, out of which came a suggestion for an interpretation of the rule in its application to accountants that would not abandon the 75 per cent test set forth in the rule, yet would give recognition to the variations in accounting services as these occur from time to time.

Out of the discussions ultimately grew a suggestion for an interpretative instruction that would permit of the classification of professional accounting firms as essential establishments, if they could establish that over a 12-month period their services to activities engaged in war production, or in support of the war effort, averaged not less than 60 per cent of their services during that period to all types of activities; and that in eight weeks of the year, not necessarily consecutive, not less than 75 per cent of their services were rendered to activities engaged in war production or in support of the war effort. No final decision has yet been had on this proposal, but your committee is hopeful that either this suggestion, or some other, can be worked out that will recognize the situation of the professional accountant.

In the discussions with the New York regional and area representatives of the War Manpower Commission, your committee had the cooperation of representatives of the New York State Society of Certified Public Accountants.

Failure of accounting firms to secure classification as essential establishments, not only would completely change their status in respect of recruitment and maintenance of staffs, under War Manpower Commission employment-stabilization programs, but also would affect adversely the consideration of certified public accountants or their equivalent on the staffs of professional firms, for deferment under the Selective Training and Service Act.

A problem to which your committee so far has given only cursory attention but which will become increasingly important with continued discharges of larger numbers of men from the armed services, is that of required reemployment under provisions of the Selective Training and Service Act. It is hoped that authorities charged with the administration of the pertinent provisions of that Act, will soon make available rules and regulations that undoubtedly will be adopted to implement the administration of the reemployment provisions of the Act.

Respectfully submitted,

J. A. LINDQUIST, *Chairman*

May 5, 1944



**Report of the Committee on Postwar Problems**

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee was appointed to consider certain broad postwar problems of general professional interest, not directly related to expansion of the Institute's activities nor to internal reorganization of the Institute's departments. Matters of a procedural or administrative nature will, we understand, be referred directly to the Institute committees concerned or to the executive committee of the Institute.

After considering numerous matters which might properly come within our province, we have decided to confine our recommendations, at this time, to four items (not already in the hands of other committees) which seem to us sufficiently in the public interest to justify current emphasis.

These items are:

1. Preparation of corporate reports in such a manner as to harmonize with anticipated social and economic changes.
2. Investigating problems of professional accounting independence.
3. Fostering the growth and employing power of small closely held corporations.
4. Encouraging postwar training on a professional level for present members of our armed forces.

**REPORT PREPARATION**

Stockholders, management, labor, government, financial interests, and the public are all concerned with corporate reports from varying viewpoints. With a few outstanding exceptions, such reports have long been prepared for, and primarily addressed to, stockholders only. Your committee believes that the reporting procedure of corporations should be broadened, and that the annual corporation report should include statements, schedules, tables, comparisons, and charts designed to inform others than stockholders respecting the corporation in its varied relationships to society as a whole.

While your committee recognizes the doctrine of primary responsibility and agrees that each corporation's report is its own pronouncement and that the financial statements contained therein are prepared by the corporation and only thereafter are

examined by the professional accountant, nevertheless the committee believes that the professional accountant properly may suggest that the annual report include statements and schedules prepared primarily for non-stockholders.

We therefore recommend the appointment of a committee to devise or approve forms of statements and schedules designed to meet the varying requirements of non-stockholding readers of annual corporation reports and to bring about their dissemination to Institute members.

**ACCOUNTING INDEPENDENCE**

In addition to examining his client's balance-sheet and profit-and-loss statement, the professional accountant may serve in other ways. He may be consulted with reference to the client's management problems, tax problems, and operating or financial procedures. Often he is asked to attend directors' meetings or even to become a member of a client's board of directors.

Smaller clients may desire him to maintain certain of their accounting records in his own office.

Some of these activities, while admittedly helpful to the client, may so affect the accountant's independence as to make it unethical for him to express a professional opinion as to the client's financial statements.

Non-professional or semi-professional relationships between the accountant and his client seem to require additional study. The definitions and illustrations of independence now existent seem inadequate since industry is composed not only of a relatively few large corporations, but of many smaller enterprises unable to support internal auditing staffs or employ competent controllers.

Such smaller enterprises look to their public accountants for much more than formal written audit reports.

To what extent may the accountant further serve his client and still remain "independent"? This question will assume great importance after the war, and we therefore recommend that the Institute undertake to uncover and survey pertinent case histories and to develop therefrom a

reasonable practical code, the application of which will be helpful to both the client and the accountant.

#### POSTWAR EMPLOYMENT BY SMALL CORPORATIONS

The small business enterprise, with little access to money markets, has, in the past, grown in stature and employing power through reinvesting rather than distributing its earnings.

If this mode of growth, admittedly important to our postwar economy, is to continue, it seems that some relief from the rigorous application of section 102 should be sought. Such relief is particularly needed in the cases of closely held corporations.

While we understand that the committee on taxation is giving consideration to problems arising from section 102, we recommend that: (1) the committee on taxation give special attention to the need for accumulation of surplus from the viewpoint of postwar unemployment, and (2) the council of the Institute consider a formal resolution bearing on this matter.

#### POSTWAR TRAINING

Many accountants in the Army, Navy, or other services, have had little opportunity to keep currently informed respecting the changing patterns of taxation, SEC regulation, accounting for, or auditing of, government contracts, and the like.

Upon their discharge, many of these accountants will require short refresher courses of various types.

In making the following recommendations, we have been influenced by considerations of the needs of the profession, the needs of men who may desire to enter the profession, and the meeting of these

needs without lowering the standards of the profession.

We therefore recommend the appointment of a committee to:

1. Survey the training needs of discharged accountants.
2. Cooperate with the training program of the Veterans Administration (or any other similar government agency).
3. Prepare curricula for presentation to the Veterans Administration (or other similar government agency).
4. Prepare appropriate text material for use of any school approved by the Veterans Administration (or other similar government agency).
5. Determine educational and experience prerequisites for refresher courses.
6. Recruit qualified members of the accounting profession to serve as part-time instructors or text writers.

The foregoing program refers only to training on a professional level to be made available through the Veterans Administration (or other similar government agency) to qualified accountants upon discharge from the armed forces. It is, however, recommended that the proposed committee also give consideration to the training needs of other qualified accountants who have been serving the nation in civilian capacities.

Respectfully submitted,

GEORGE S. OLIVE, *Chairman*  
 ROBERT P. BRIGGS  
 ERIC A. CAMMAN  
 HERBERT C. FREEMAN  
 STEPHEN GILMAN  
 HARRY E. HOWELL  
 WILLIAM A. PATON  
 MAURICE E. PELOUBET

May 7, 1944

#### Report of the Committee on Renegotiation of War Contracts

TO THE COUNCIL OF THE  
 AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee has held one meeting, which was with representatives of the Army to discuss suitable regulations to carry out the provisions of section 403 (i) (3) of the renegotiation act as amended by the Revenue Act of 1943. The purpose of this section of the law is to exclude from consideration in renegotiation that portion of the profits derived from

contracts attributable to the increment in value of the excess inventory of certain raw materials and agricultural products specifically exempt from renegotiation in their first form or state suitable for industrial use.

The committee made certain suggestions during the meeting and offered to review a draft of regulations when prepared or in any other way to assist in the handling of this problem. Incidentally, it is reported that May 25, 1944, is the time limit for

filing claims for correction of renegotiation due to this amendment of the revenue act in regard to excess inventory.

With the help of the Institute office and otherwise, your committee has endeavored to keep in close touch with developments in methods and procedures for handling renegotiation of war contracts, and we are summarizing in this report the more important developments since the annual meeting of the Institute in October, 1943.

The matter of most immediate importance is that many businesses with war contracts subject to renegotiation must file on or before June 1, 1944, a substantial amount of information. This filing must be made by all those with fiscal years ending after June 30, 1943, up to and including February 28, 1944. There appears to be in the act and the regulations no provision for extension of time for filing.

Generally speaking, all concerns that have received or accrued an amount in excess of \$500,000 in the aggregate from sales, either directly or indirectly, to the War Department, Navy Department, Treasury Department, Maritime Commission, War Shipping Administration, Defense Plant Corporation, Metals Reserve Company, Defense Supplies Corporation, and Rubber Reserve Company, for any fiscal year ended after June 30, 1943, are subject to renegotiation.

The term "direct or indirect sales" means sales under a prime contract, a subcontract, a purchase order, or any sale, the end-use of which is for any of the government agencies enumerated above. It is the duty of every concern to determine whether such sales exceed \$500,000 for any period in question and consequently are subject to renegotiation.

The required information is to be filed in one of the three different sets of forms provided by the Board, as follows:

- (1) "Standard form of contractor's report" to be used by concerns principally engaged in manufacturing and general business.
- (2) "Standard form of contractor's report" (for construction contractors, architects, and engineers) to be used principally by those engaged on construction projects, including those operating under architects' and engineers' contracts.
- (3) "Standard form of contractor's report (for agents, brokers, and sales engineers)."

The filing of a mandatory financial statement in accordance with provisions of the Act will not relieve any contractor or subcontractor of the duties of furnishing any additional information which the Board may later require.

As soon as it was available, the "Standard Form of Contractor's Report" was sent to all members and associates of the Institute. Copies are now available for distribution and can be obtained by writing to the War Contracts Price Adjustment Board, Assignments and Statistics Branch, Renegotiation Division, Room 3D573, The Pentagon, Washington 25, D. C.

The regulations require that the applicable form must be filed, notwithstanding the fact that the information has already been furnished to a price adjustment agency. However, in the latter instance, the forms can be completed by reference to the information so furnished and making a specific statement of the time and place of such filing. When certified by the appropriate price adjustment agency that it has received such information, the forms will be accepted as having complied with the mandatory filing thereof. This procedure is apparently required to be followed even though a renegotiation has been completed for a year ended after June 30, 1943.

Regulations and interpretations of the War Contracts Price Adjustment Board have been issued, and are available in the regular commercial services.

The first item of the instructions for preparation of standard form of contractor's report states that "Copies of audit reports by independent public accountants should be submitted if available." There appears to be general appreciation on the part of the boards and the contractors as to the assistance that can be rendered by independent public accountants in preparing the necessary data. Our profession has a great responsibility to see that the preparation and reporting of financial and other data are handled with complete impartiality and independence, no matter what our personal opinions may be as to the fairness or unfairness of the amounts or bases for renegotiation proposed in particular cases.

A hearing on the first renegotiation case before the United States Tax Court has already been held and new standards of procedure undoubtedly will be developed

as this and other cases progress. There are various cases in connection with renegotiation pending in different United States district courts which will undoubtedly have a bearing on any cases that are not settled by mutual agreement between the contractor and the applicable service or board representing the government.

Because of the discussions in Washington and elsewhere prior to the revision of the law in regard to renegotiation of war contracts, there will undoubtedly be some changes in attitudes and procedures in handling renegotiations for 1943 as compared with similar procedures for 1942. The limits of war contracts subject to renegotiation have been increased to \$500,000 of sales directly or indirectly to departments and agencies of the government. Greater attention must be given to income and expenses determined for income-tax purposes, which may result in unsound and unfair renegotiation if the tax figures differ appreciably from the regular operating figures of the company. There is still no allowance for reserves arising out of the war in determining true costs and profits.

Information available as to the results of renegotiation proceedings for a number of companies for 1942 appears to indicate that, while the principle of over-all renegotiation is sound, its administration has not been wholly satisfactory. Too little credit has been given to unusual achievement in helping the war effort and to outstanding efficiency of operation, so that the high-cost, inefficient producer in some cases has been left in a better relative position after renegotiation than the more efficient concern in the same or a similar industry. The actual results of renegotiation have approached too closely cost plus a profit based on cost. Let us hope that, in considering results for 1943, companies with outstanding achievements in high production and low costs will be given financial recognition in addition to flags and other evidences of excellence.

Our president, Mr. Stempf, chairman of a similar committee of the Institute in the previous year, urged many times and before different organizations that there should be included in the determination of renegotiation of war contracts and also in the Revenue Act suitable provisions for expenses and losses arising out of the war in order to show the true income during the war period.

A study of special reserves arising out of the war was made by the research department and printed in *The Journal of Accountancy* for November, 1943. This and similar studies by the Treasury Department and the Securities and Exchange Commission are mentioned in the bulletin of the National City Bank of New York for May, 1944, which calls attention to the importance of postwar reserves and concludes its discussion as follows:

"In the balance-sheets of the 50 large war material manufacturers in our study, the combined total of all reserves—including reserves allocated to specific purposes, general or unallocated, and including routine operating reserves as well as special wartime reserves—increased from \$435 millions at the end of 1940 to \$892 millions at the end of 1943.

"The latter figure is a large dollar amount. However, it represents but 6 per cent of the total assets of these companies, which during the same period had expanded from \$9,868 millions to \$13,960 millions in meeting the unprecedented demands for production of war materials. In view of the problems and uncertainties which these companies face in the postwar period, the real danger is that the reserves may prove to be less than adequate, rather than excessive."

The chairman of your committee spoke on this same subject at the December, 1943, meeting of the New York Chapter of the National Association of Cost Accountants and pointed out that security holders, members of Congress, officers and employees of the government, and the general public are all interested in knowing the true results of business operations during the war period. All of us, as well as the executives of companies, especially the large listed companies, have a great responsibility to see that financial statements give as nearly as possible the true earnings. This responsibility is not lessened by the fact that deductions of provisions for postwar losses and expenses are not allowable in determination of current taxes on income or in current procedures for renegotiation.

There is general agreement that business should not make large profits out of the war, and the broad purpose of both renegotiation and federal excess-profits taxes is to take away abnormally large profits. We have no quarrel with the purpose, but

we can and should be critical of certain provisions of the laws and regulations, and especially critical of their administration. Because of the failure to allow in determining income all expenses necessary to produce such income, the results in many cases have been to tax as income what is not true income and to renegotiate profits that were not true profits. Therefore, the maximum tax of 80 per cent of income may actually be 85 per cent of the true income, and an allowance of 8 per cent for profits on sales after renegotiation may actually be an allowance of only 6 per cent if measured by the true profits.

There has been some loose thinking and some equally loose talking about proposed allowances for postwar expenses and losses as if such allowances were a bonus or subsidy. Actually, what is desired is merely the allowance as a deduction of the proportion of such expenses and losses that is fairly chargeable against the earnings of each current period in order to give a balance of net income which is as nearly as possible the true net income. Such true net income would be a sound basis in place of the present unsound basis for both taxes and renegotiation.

Even though allowances for postwar expenses and losses cannot be made specifically as deductions from income, it is to be hoped that the necessity for such allowances in order to show true income will be stressed by accountants and by contractors in preparing data for renegotiation and in renegotiation proceedings, and that such facts may be given consideration in determining what profits on war contracts may fairly and reasonably be determined to be "excessive."

There has been developing in recent months a tendency toward renegotiation of individual contracts. If this procedure is extended broadly, it might result in renegotiation of the profitable contracts, leaving the contractor to stand the full loss on unprofitable contracts. The over-all return from war contracts might either be a net loss or a net profit so grossly inadequate as to be unfair to the contractor. Certainly, if there is to be any recapture of profits during the war other than through the tax laws, every one will agree that over-all renegotiation is a sounder and fairer method than either renegotiation of individual contracts or any fixed percentage of profits.

In Accounting Research Bulletin No. 21 it was pointed out that profits would be overstated unless provisions were made for renegotiation of war contracts. Recommendations in this bulletin have generally been followed and have been approved by the War Department and other procurement agencies who have emphasized that those charged with renegotiation should pay no attention to reserves for renegotiation set up by contractors in determining the amount of "excessive" profits.

Over-all renegotiation of war contracts will undoubtedly be affected by the law, regulations, and procedures adopted in connection with termination of war contracts. The chairman of this committee has conferred with Mr. Bailey, chairman of the committee on termination of war contracts, and the two committees will continue to work together so that accounting problems involved in the termination of war contracts may be handled in a manner that is most equitable and practical in their effect on over-all renegotiation. Tentatively, we agree that the results of termination settlements should be included in the figures for over-all renegotiation. The amount billed in termination for completed or partly completed articles and for inventory should be included in total sales and the cost of inventories—raw, in-process, and finished—should be included as a part of cost. The only time that the settlement of a termination claim will be given consideration for renegotiation is after the close of the fiscal year when the contracts terminated will be included in one total with the contracts completed and those still in process at the close of the year, to make up the sales and also the costs and profits on total war business.

Your committee will continue to watch the progress of renegotiation of war contracts, keep members of the Institute advised of important developments, and be available for consultation and assistance to the boards and others in charge of renegotiation policies and procedures.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*  
M. C. CONICK  
A. S. FEDDE  
RAYMOND C. REIK  
PRIOR SINCLAIR

May 5, 1944

## Report of the Committee on Termination of War Contracts

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on termination of war contracts has continued its policy of cooperating with various branches or departments of the government in all matters where auditing and accounting enter into procurement of war material or the cessation thereof. The name of the committee was changed from the "committee on government audit of contractors' costs" to the "committee on termination of war contracts," because the emphasis of the committee's activities seemed to be on the latter problem. The committee has cooperated with other citizen groups interested in the same general subject and has had occasionally to deal with special problems which involved the War and Navy Departments. The activities of the committee can be divided generally into four main classifications, as follows:

- (1) Legislative
- (2) Administrative
- (3) Cooperation with others
- (4) Miscellaneous.

### LEGISLATIVE

It will be remembered that council, at its meeting on October 21, 1943, passed a resolution for presentation to Congress dealing with the participation of the office of the Comptroller General in termination procedures and taking the position that the termination settlements should be made by the procurement agencies, that such settlements should be final and binding except for fraud, and that the Comptroller General and his General Accounting Office should have no further authority than the traditional one of examination for legality and for fraud. This resolution and an accompanying statement were presented by the committee on October 22, 1943, to the Murray subcommittee of the Senate Committee on Military Affairs. The propriety of testimony by the Institute on matters within the special province and experience of the independent accountant was recognized, the testimony was well received and was noted and referred to many times

during the subsequent development of policies and the subsequent discussions on legislation. The resolution, the accompanying statement, and most of the testimony were printed in *The Journal of Accountancy* and need not be repeated here.

The position taken by the Institute appears to be in accord with the decisions arrived at by various procurement agencies. The Baruch-Hancock report took the same position. During recent weeks, however, there has been a resurgence of the demand that the Comptroller General be allowed to participate in termination settlements in some way. The House Committee on Military Affairs recommended to the House that the Comptroller General be given veto power over settlements. Senator Murray, sponsor of the Senate bill on this subject, indicated a feeling that the Comptroller General should exercise something more than his traditional function. The House Committee on Naval Affairs indicated a desire to permit the Comptroller General to participate in some manner.

The committee on termination of war contracts took cognizance of this discussion and came to the conclusion that the Institute had an obligation to the public to present its views on what after all was fundamentally a question of sound and effective auditing. The committee offered to appear before the House Committee on Naval Affairs (Vinson Committee) and was given the opportunity of testifying on Friday, April 14, 1944.

Acting under authority of the council resolution above referred to, the committee took the position that the Comptroller General and the General Accounting Office should not participate in the determination of the amounts that would be allowed on termination claims but that the activities of that office should be limited to reviews for legality and fraud. This position was not new, but the main emphasis in presentation was made on the point that examinations for fraud, if they were to be effective, required examinations by the General Accounting Office of the records of the various settlement agencies dealing with termination claims. It is the committee's position that such examinations were inherent in the provision that the

General Accounting Office should examine for fraud, but, in view of the misunderstanding that seemed to exist, the committee suggested that such inherent rights could be written into the law. The committee pointed out that it was repugnant to the theory of independent auditing for the General Accounting Office to participate in the administrative decisions in any way and then to audit procedures and decisions at a later date.

The statement filed by the committee pointed out how effective had been the standard auditing procedures of the public accountant in making postaudits and reporting on procedures and policies to boards of directors for general commercial practice and suggested that it would be equally effective if the Comptroller General were to operate in the same manner. This position was well received by all the administrative agencies of the government and was accepted in principle by the House Committee on Naval Affairs, although its effect was partly vitiated by a provision that a representative of the Comptroller General might be present at all settlements as an observer, a position which our committee had condemned. Senate bill 1718, called the Murray-George bill, meets the entire approval of our committee in so far as it deals with the function of the Comptroller General.

The committee believes this question to be of paramount importance and will present to council a resolution on this subject which will be supplementary to the resolution approved by council last fall. It may be necessary and desirable for the Institute to make its position known to all members of Congress, and a resolution of council offers the most convenient and effective vehicle for that purpose. The statement presented by the committee to the House Naval Affairs Committee and the more important parts of the testimony are expected to appear in *The Journal of Accountancy*.

The appearance before Congress again demonstrates the soundness of the basic policy of the Institute to make itself heard on matters of public policy where the experience and training of the independent public accountant particularly qualify him to speak. Not only did this problem involve auditing in a great degree, it needed particularly an expression from someone with

no selfish interest. After some initial scepticism the Vinson Committee recognized the peculiar right of the profession to speak on the subject, and for an hour and a half took full advantage of the opportunity to question. The incident provided additional evidence of the fundamental importance to society of the independence of viewpoint of the accounting profession.

#### ADMINISTRATIVE

There have been and still are many perplexing and difficult problems in connection with procedures and policies to be adopted by the procurement services in respect of termination claims. The services of the committee have been offered to various administrative agencies such as the War Department, the Navy Department, the Joint Contract Termination Board, and others. Particularly has the committee had representation in various civilian advisory groups called in by the various subcommittees of the Joint Contract Termination Board.

Several members of the committee met with the officers of the Fiscal Division of the War Department in Washington on November 2, 1943, to consider proposed cost interpretations. This was a two-day meeting, the results of which probably would have been made public long since had it not been for the establishment of the Joint Contract Termination Board and the transfer of the responsibility for individual cost releases to a subcommittee of that Board. On December 7th a representative of the committee met with other civilians in Washington to consider with the procurement agencies the definition of costs subsequently released by the Joint Contract Termination Board under date of December 30, 1943. The basic problem involved in this release was whether to define costs generally with specific paragraphs only on a few quite unusual items or whether to have a long and complete definition. The recommendations of the committee were toward the former, and this philosophy was finally adopted. On February 2nd representatives of the committee met with subcommittees of the Joint Contract Termination Board which dealt respectively with the termination article for subcontracts and with the problems of company-wide direct settlements. A uni-

form termination article for subcontracts has been made available to the contractors, but the problem of over-all company-wide settlements is so complex that no definitive procedures thereon have yet been decided upon.

On April 19, 1944, representatives of the committee and others met with other subcommittees of the Joint Contract Termination Board, one dealing with the question of forms and one dealing again with individual cost interpretations to be issued by the permanent subcommittee on costs of the Joint Contract Termination Board. It is understood that the tentative forms considered at that time are to be further revised. The cost interpretations cover a number of highly controversial points and it may be that the actual releases will be held up for some time. It is expected that the committee will be called upon frequently in connection with these and other points as the administrative procedures are being developed.

It is gratifying to note that positions taken by the committee and recommendations made in April, 1943, and at various times since, are, in all important aspects, being recognized as desirable; and those which the committee believes to be of major importance are being worked into the procedures now being developed.

#### COOPERATION WITH OTHERS

Representatives of the committee attended several meetings of an advisory group of the National Association of Manufacturers. It has also cooperated with war contract termination committees of other groups.

#### MISCELLANEOUS

The committee has been concerned with information which it has received with respect to the inadequacy of the average termination claim as it was filed with the settlement agency, including those claims that were prepared by certified public accountants or accompanied by their reports. Bulletin No. 20 of the committee on auditing procedure, dealing with accountants' reports on termination claims, which had the hearty endorsement of our committee, should prove to be helpful. In this connection, the letter sent to members of the American Institute of Accountants and

other certified public accountants by President Stempf also should prove to be helpful. It is, in the opinion of the committee, one of the most important letters ever sent out by the Institute. The preparation of and assistance in termination claims by independent public accountants is bound to offer a unique opportunity for the independent public accountant to demonstrate to the public his independence and objectivity of viewpoint, while failure to do so may have far-reaching effects on the profession.

The relationship of termination and renegotiation has come before the committee several times in various ways. It is the committee's position that termination and renegotiation should not be combined but that it is necessary that there be the closest cooperation between the two branches of the various services.

A question was raised as to the propriety of the use by the government of the regular independent public accountants of individual contractors for certifying to cost data in a special instance not connected with termination. The committee made representations that both equity and speed will be best served ordinarily by the use of reports of the company's own regular independent public accountants acting in their conventional capacity.

#### CONCLUSION

The importance of the independent public accountant in termination procedures is not yet fully appreciated either by the government, the contractors, or by the accountant himself. The committee believes that there will be increasing participation by public accountants in these procedures as time goes on. It believes also that it is the obligation of the Institute to continue to disseminate all possible information on this subject to its members and to other accountants, and to assist in discussion of termination problems by the various state societies.

Respectfully submitted,

GEORGE D. BAILEY, *Chairman*  
SAMUEL J. BROAD  
JOHN B. INGLIS  
CHARLES W. JONES  
DONALD M. RUSSELL

May 8, 1944



## APPENDIX B

Annual Reports of Officers, Auditors, Council, Board of  
Examiners, Committees, Boards of Trustees of  
Foundation and of Benevolent Fund, Advisory  
Council of State Society Presidents

## Report of the President of the American Institute of Accountants

A prominent accountant said to me last week: "The Institute has plenty of technicians; what it needs is statesmen." The need is obvious, but the more I ponder the challenge the more firmly do I conclude that the Institute never lacked statesmen, and has no reason to fear the future.

Show me another profession which can point with equal pride to life-long, active, and loyal interest of its finest minds. Forty years ago, in this fair city, the first International Congress of Accountants included a number of men who are present today. Then, as now, these men were leaders, fighting to establish a true profession. They did so fearlessly and proudly then; they do so today. They have planted the same ideals in all who have known them and have worked with them. What better schooling in professional statesmanship could one desire?

Statesmanship in the profession looks beyond immediate selfish interest or expedience toward the long-range development of the influence, recognition, and prestige of the profession, through unmistakable service in the public interest. Statesmanship demands constant vigilance and vigorous action. It demands an awareness of opportunity and a willingness to act promptly, fearlessly, and diligently, as have all of the Institute's special wartime committees during the past three years. It demands vigilance concerning deliberate or inadvertent attacks upon the integrity, capacity, or authority of the profession; and prompt action to counteract such attacks, and to clear the record.

The administration of the Institute has had both praise and criticism within the profession; praise for prompt action and constructive contributions; criticism of so-called appeasement, on the one hand, or of undue aggressiveness on the other hand. These are all healthy signs of widespread interest in the Institute's activities, and recognition of our responsibility to lend a hand in shaping public policy. We are becoming more sharply aware that accounting is a potent social force; that its use or abuse may radically affect the destinies of our economy.

As the profession grows in influence, as it gains public respect and recognition, so

will it also become more and more the target of attack, either by those jealous of its preferment, or by the drooling wolves before an imagined strikesuit feast. We must guard our right to determine what are generally accepted accounting principles and generally accepted auditing standards. As a profession, we have an inalienable right to set for ourselves objective standards of independence, integrity, and competence. We must present a strong, united front against the imposition of far-fetched unreasonable responsibilities beyond the scope of those which the profession has declared itself ready to assume.

Leadership in these matters must be expected, and shall without question be found, in the administrative bodies of the Institute. Our elder statesmen have built a firm foundation; their disciples are numerous, competent, and ardent. The Institute does indeed need statesmen, and let us not forget it; but I firmly believe that it has bred them for the past forty years at least. Leadership for the profession seems well assured, and I admonish the younger men in the profession that we look to them for such leadership in the future. For that leadership they will require years of training and experience in the affairs of their respective state societies and the Institute. Do not postpone the period of preliminary training. Accept and discharge with care every opportunity to serve the profession. Your ability, judgment, and staying-power will soon be measured by those with whom you serve, and they will eagerly transfer to worthy younger shoulders the responsibilities which have been borne by those who have served long and faithfully before.

I shall forego the privilege of presenting a preview of the Institute's accomplishments during the past year. This will be done thoroughly in the report of the council which will be presented this morning, supported in greater detail by many vitally interesting reports of committees to be published shortly.

Despite serious losses in personnel during the year, our resourceful secretary has kept the office at a high level of efficiency; and has goaded, aided, and abetted the

committees, with foresight, wisdom, and ardor which evoke the highest respect and admiration of all who fall within his spell.

I am happy to have shared in the administration of the Institute in a year in which its committees have served so faithfully

and well, and have gained such high respect in the nation's capital and among the general public. For that privilege, I shall always be grateful.

VICTOR H. STEMPE, *President*

### Report of the Secretary

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN:

#### PUBLIC AFFAIRS

The fiscal year 1943-1944 will be a notable one in the history of the Institute. Not only in the volume and variety of the work done, but in the high level at which much of it was done, the past year's results are impressive.

Accounting and auditing have come to be recognized by policy-makers as vital elements in war procurement, war-contract termination, wartime controls, federal income taxation, public-utility rate regulation, regulation of publicly owned corporations, and the federal government's operating procedure—all matters of major interest to the community as a whole. The experience of the past year indicates that the American Institute of Accountants is rapidly coming to be recognized by policy-makers as a principal source of authoritative opinion on accounting and auditing. Institute representatives offered their views on these subjects of broad public interest before Congressional committees, the United States Supreme Court, and the National Association of Railroad and Utilities Commissioners; and in conferences with many individual members of Congress, with staffs of Congressional committees, with staffs of war agencies and other government departments, and with the New York Stock Exchange. These appearances and conferences unquestionably have had a constructive effect.

It may fairly be said that the accounting profession, which in the past has often been consulted on problems of administrative procedure, is beginning to play a part, though as yet a modest one, in the formulation of public policies. Additional evidence of widening respect for the profession

may be found in the increasing frequency with which the Institute is mentioned in the public press, particularly in editorial comment; in the frequency with which individual members of the profession have been called to testify as experts in cases before regulatory bodies; in the example of a corporation which in a recent report to stockholders explained a decision on financial policy by citing a recommendation of the Institute; in the quotation of a statement by the Institute in a debate on the floor of the Senate; and in the recent proposal by a taxpayers association, which received favorable comment from a member of the House Ways and Means Committee, that reports of taxable income certified by certified public accountants be accepted by the Treasury without further audit.

#### PROFESSIONAL AFFAIRS

However, the Institute has not been wholly preoccupied with public affairs. Problems of immediate interest to the practicing certified public accountant have had their share of attention.

In the formation of the National Conference of Lawyers and Certified Public Accountants a foundation has been laid for close, continuing cooperation with the American Bar Association, whose committee on unauthorized practice of law recently recorded the opinion that certified public accountants may properly prepare income-tax returns.

An ambitious program of research in selection of accounting personnel has been undertaken, which may lead to far reaching improvements in personnel policies and training, accounting education and C.P.A. examinations.

Refresher courses for war veterans are being prepared, in recognition of the Institute's responsibility to provide former public accountants who have served in the

armed forces with a ready means of reorientation in their profession.

An intensive study of problems related to the concept of independence has been undertaken.

Drafts of model accountancy laws, of both the regulatory and permissive types, have been completed.

#### STATE SOCIETIES

Plans for coordination of activities of the state societies and the Institute have advanced to a point where a detailed outline of a proposed program is before the Advisory Council of State Society Presidents for consideration. If it is approved and put into effect, the staff believes the results will surpass all expectations. The active and continuous cooperation of the state societies can vastly increase the Institute's ability to get things done on a national scale. On the other hand, the Institute is in a good position to serve as a clearing house of information and ideas which could be tremendously helpful to the state societies in carrying out their own programs.

The formal plan of coordination is really only an extension and refinement of what has been going on in the past eight years. The Institute's relations with state societies today are universally friendly, and mutually helpful.

In April, the five officers of the Institute and the chairman of the committee on federal taxation attended a series of afternoon and evening meetings arranged by state societies, or their chapters, in Pittsburgh, New Orleans, Houston, Tulsa, Kansas City, Missouri, Omaha and Minneapolis. The Institute's representatives spoke on various wartime problems and other matters of current interest. The attendance at each meeting was surprisingly large (the aggregate was about 2,000), and the reception everywhere was most cordial.

In May, the president and secretary attended a meeting of the Massachusetts Society of Certified Public Accountants, and in June they visited the west coast, speaking at state society and chapter meetings at Seattle, Portland, San Francisco, Los Angeles, Salt Lake City, and Denver. They were received in the friendliest possible manner.

Other representatives of the Institute

have attended state society meetings elsewhere, and have reported most favorably on the way in which they were received.

All these visits confirm the impression which has been growing in recent years, that the state societies are deeply interested in the work of the Institute, that they gladly accept its leadership in national affairs, and that they appreciate the help it has been able to give them in meeting their local problems; but that they feel a good deal more help could be given, and they would like to participate to a greater extent in the Institute's work.

#### REGULAR SERVICES

The regular work of the Institute has been carried on as usual.

The standard certified public accountant examination is now adopted by 47 states and territories, and other states are considering the possibility of adopting it.

The committee on professional ethics has continued its quiet but effective advisory and disciplinary activities.

The library staff has produced the Sixth Supplement to the *Accountants Index*, and has answered 13,000 inquiries, received 5,500 visitors, and circulated 4,000 publications during the past year.

Paper limitations have necessitated some reduction in the size of *The Journal of Accountancy*, but a careful selection of the material to be published has apparently succeeded in holding the approval of members and subscribers. The circulation has increased from 19,869 to 23,452 in the past fiscal year, and advertising revenues have risen from \$18,160 to \$22,679.

A change in policy in publication of *The Certified Public Accountant*, so as to permit its publication at shifting dates within each month, has made it possible to use this bulletin to convey to members without delay events of importance to the profession. Instead of producing a bulletin on a fixed date, the staff publishes each issue as soon as possible after the receipt of any information which it is desired to transmit to the membership immediately.

Publication of the regular Yearbook was omitted the past year as a wartime measure, and the executive committee has decided that in the future members will be best served by the separate publication of an annual membership roster and a Yearbook containing lists of officers, council

and committees, proceedings of the annual meetings, reports, financial statements, by-laws and rules of conduct.

Nine special items of wartime information, such as Selective Service and contract termination regulations, have been sent to the membership. Altogether, aside from *The Journal of Accountancy* and *The Certified Public Accountant*, 633,381 books, bulletins, pamphlets and reports bearing the Institute's name, have been distributed during the year.

The Benevolent Fund has continued to assist members of advanced years who have encountered financial difficulties.

Prizes and awards will be presented by the Institute at the annual meeting to candidates who obtained the highest grades in the examinations and to certified public accountants who have made outstanding contributions to the welfare of the profession.

#### MEMBERSHIP

The membership is increasing at the rate of about ten per cent a year. Losses from resignation and failure to pay dues are less than one-half of one per cent. The total membership was 7,996 at August 31st, and it is now over 8,000. Of this number, 807 are now in the armed forces. Tests show that the average age of new members has always been and continues to be well above 30 years. It is believed that the methodical program which has been undertaken by the membership committee, to be put into effect in the current year, will materially increase the rate of growth.

#### STAFF

Of the 43 persons who composed the staff of the Institute at the time the United States entered the war, only 20 remain. For the most part, the department heads and key assistants whose names were mentioned gratefully in the secretary's report of October 13, 1943, are still on the job; but a few have withdrawn. H. T. Winton, assistant secretary, and George N. Farrand, research assistant, have accepted commissions in the Navy. Willima Robinson, editorial assistant, required leave of absence during the summer because of ill health, but has now returned. Nine former members of the staff are now in the armed services, and one, Murray M. Mern, Jr., who was employed as a messenger and

assistant in the mailing department, has been reported missing in action in Italy.

It has been extremely difficult to find replacements for vacancies in stenographic and clerical positions, and there are continuous shortages in these departments.

Efforts to secure additional personnel whose employment has been authorized to assist the committee on membership have not yet been successful. Additional personnel will also be required if the suggested state society service department is formed. At August 31, 1944, the total number of the staff was 43.

Last spring the council approved a plan of staff organization recommended by the executive committee, which called for a full-time research director and created a new post, that of educational director. Since the present research director, James L. Dohr, could not give his full time to the Institute, and wished to return to Columbia University where his services were urgently needed, the position was offered to Carman G. Blough, who has accepted. Mr. Blough is a certified public accountant, a member of the Institute, and president of the American Accounting Association. He has been a teacher of accounting, chief accountant of the S.E.C., and a partner of a public accounting firm. He is now Chief of the Contract Review Branch, Procurement Policy Division, of the War Production Board. He will assume his duties with the Institute in November. Mr. Blough's experience and qualifications will prove most helpful in developing the Institute's program of technical research.

Thomas W. Leland accepted the position of educational director in August. He has been head of the accounting department of Texas A & M College, and has served as both president and secretary of the Texas Society of Certified Public Accountants. He is a vice president of the American Accounting Association. The preparation of the standard C.P.A. examination, the program of refresher courses for veterans, and other educational activities of the Institute are being greatly facilitated by his assistance.

As reported to the council last May, Miss Elizabeth Arliss is serving as acting assistant secretary in Lt. Winton's absence. Mrs. Rebecca Newman Golub, a member of the New York Bar, was appointed early in the year as technical assistant to the

committee on federal taxation. It is expected that a research assistant to act in Lt. Farrand's place will soon be employed.

While a few key positions remain empty, the structure of the staff has been greatly strengthened. It now includes experienced specialists skilled in problems of organization and administration peculiar to the Institute, editorial work, library work, public relations, legislation, education, technical research and taxation.

It should be possible soon to extend to all committees the type of staff assistance that has already been available to many, relieving committee members of detail work and freeing them to plan, decide questions of policy, and supervise staff activities. Several desirable results may reasonably be expected: increased volume of production, greater continuity of effort in all phases of activity, and better integration of the Institute's program as a whole.

#### CONCLUSION

The Institute is acting effectively as spokesman for the accounting profession on questions of national policy in which accounting is involved. It is making progress toward the solution of some of the

major problems of the profession itself. It contributes substantially to the maintenance of high professional and technical standards. It is now taking a more active interest than formerly in accounting education. It is encouraging a strong sense of unity within the profession, and closer coordination of activities, through cooperation with the state societies, the American Accounting Association, and the Association of Certified Public Accountant Examiners. Through its meetings, library, research department, and publications it provides its members and others with helpful information.

The Institute's membership and consequently its revenues, are now large enough to permit maintenance of a staff organization equipped to deal with all aspects of the work. The future holds promise of even greater opportunities for service than the past. There is every reason to believe that the Institute will accept them, and will discharge its responsibilities with credit to the accounting profession.

Respectfully submitted,

JOHN L. CAREY, *Secretary*

October 3, 1944

#### Report of the Auditors

TO THE MEMBERS OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:  
GENTLEMEN:

We have examined the attached balance sheets and related statements of income and principal transactions of (1) The American Institute of Accountants; (2) the American Institute Publishing Co., Inc.; (3) the American Institute of Accountants Foundation; (4) the American Institute Benevolent Fund, Inc., and the consolidated financial statements of the American Institute of Accountants and the American Institute Publishing Co., Inc. as of August 31, 1944; have reviewed the system of internal control and the accounting procedures of these organizations and, without making a detailed audit of the transactions, have examined or tested their accounting records and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with

generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion the accompanying financial statements and schedules present fairly the financial condition of the organizations named above as of August 31, 1944, and the results of their operations for the year ended at that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except that a change in the method of prorating unexpired subscriptions of *The Journal of Accountancy* resulted in a decrease of \$4,200.00 in the income of the publishing company.

Respectfully submitted,

HOWARD A. WITHEY  
HENRY A. HORNE

October 10, 1944

Exhibit A

AMERICAN INSTITUTE OF ACCOUNTANTS AND AMERICAN INSTITUTE PUBLISHING CO., INC.  
CONSOLIDATED BALANCE SHEET

	August 31		August 31	
	1944	1943	1944	1943
<b>ASSETS</b>				
Cash.....	\$ 27,010.68	\$ 55,130.25		
Securities (quoted market value 1944—\$296,371.82; 1943—\$248,095.63).....	282,619.19	247,365.21		
Accounts receivable (including in 1944 advances for employees' portion of pension plan costs, (\$721.44).....	3,865.90	4,595.67		
Inventories (books and unbound sheets, at cost or nominal value; paper stock, supplies, etc., at cost; including in 1944 net unrecovered cost of Sixth Supplement of Accountants Index—\$5,461.04).....	13,924.63	7,217.75		
Interest accrued on bonds purchased.....	64.78			
Library books, furniture and equipment.....	3.00	3.00		
Prepaid expenses.....	2,291.33	1,493.97		
Goodwill of American Institute Publishing Co., Inc.....	14,699.08	14,699.08		
<b>Total assets.....</b>	<b>\$344,478.59</b>	<b>\$330,504.93</b>		
			<b>LIABILITIES AND PRINCIPAL</b>	
			<b>Liabilities:</b>	
			Accounts payable.....	\$ 6,856.30
			Taxes withheld from salaries.....	139.53
			Accrued expenses and taxes.....	953.76
			Payroll deductions for U. S. war bonds.....	277.50
			<b>Total liabilities.....</b>	<b>\$ 8,227.09</b>
			<b>Deferred income:</b>	
			Subscriptions and advertising unearned; dues paid in advance; fees of applicants, pending admission to Institute; and unfilled orders...	
			Principal:	\$ 31,707.22
			Endowment fund.....	\$218,256.92
			Appropriated for contingency fund.....	66,654.50
			Elijah Watt Sells scholarship fund.....	1,711.50
			Unappropriated.....	17,921.36
			<b>Total principal.....</b>	<b>\$304,544.28</b>
			<b>Total liabilities and principal.....</b>	<b>\$344,478.59</b>
				<b>\$330,504.93</b>

NOTE.—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses of the American Institute of Accountants, for which the invoices were received subsequent to the balance sheet dates, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand for sale has been charged to expense at time of acquisition.

Exhibit B

AMERICAN INSTITUTE OF ACCOUNTANTS AND AMERICAN INSTITUTE PUBLISHING CO., INC.  
 CONSOLIDATED STATEMENT OF PRINCIPAL TRANSACTIONS FOR THE FISCAL YEAR ENDED AUGUST 31, 1944

	Total	Unappro- priated	Endow- ment	Appro- priated	Elijah Watt Sells
		Fund	Fund	Con- tingency Fund	Scholar- ship Fund
Balance—September 1, 1943.....	\$297,675.37	\$17,921.36	\$214,802.40	\$63,250.05	\$1,701.56
Add:					
Excess of income over expenses for fiscal year.....	5,918.34	11,892.46	<i>5,984.05</i>	1,153.67	9.94
Net income from securities and savings banks.....	4,608.19		3,454.52	1,177.18	
Profit on sale of securities.....	1,177.18			5,908.40	
Transfers.....		<i>11,892.46</i>	<i>5,934.06</i>		
Total.....	<u>\$309,379.08</u>	<u>\$17,921.36</u>	<u>\$218,256.92</u>	<u>\$71,489.30</u>	<u>\$1,711.50</u>
Deduct:					
Special legal expenses.....	\$ 4,422.66			\$ 4,422.66	
Net cost of "Proceedings of Government Accounting Conference".....	412.14			412.14	
Total.....	<u>\$ 4,834.80</u>			<u>\$ 4,834.80</u>	
Balance—August 31, 1944.....	<u>\$304,544.28</u>	<u>\$17,921.36</u>	<u>\$218,256.92</u>	<u>\$66,654.50</u>	<u>\$1,711.50</u>

NOTE.—Italics indicate red.



AMERICAN INSTITUTE OF ACCOUNTANTS AND AMERICAN INSTITUTE  
PUBLISHING CO., INC.

CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

	Year ended August 31	
	1944	1943
<b>Income:</b>		
Dues.....	\$153,320.32	\$141,473.53
Earned subscriptions to monthly publications—nonmembers only..	48,501.97	42,791.42
Sales of books.....	9,917.38	9,540.23
Advertising.....	22,679.29	18,159.56
Fees from state boards.....	11,863.90	11,200.20
Income from securities and bank balances.....	10,703.29	9,992.96
Application fees.....	1,940.00	1,440.00
Proceeds of 56th annual meeting.....	3,377.43	
Contributions to library from American Institute of Accountants Foundation.....	2,807.64	2,789.63
Profit on other publications, services rendered, and other items.....	14,861.86	13,240.02
Total income.....	<u>\$279,973.08</u>	<u>\$250,627.55</u>
<b>Expenses:</b>		
Salaries and technical service fees.....	\$111,907.97	\$ 93,348.86
Expenses of research department.....		314.91
Prime costs of monthly publications (paper, printing, etc.).....	39,044.05	32,872.34
Rent, electricity, and building supplies.....	19,503.53	18,208.56
Board of Examiners expenses.....	20,269.08	15,068.13
Prime cost of books (paper, printing, purchases, royalties, etc.)....	4,726.09	5,344.36
Postage and expressage.....	11,638.62	9,404.63
Honoraria.....	5,000.00	7,500.00
Stationery, printing, and supplies.....	6,514.91	4,861.69
Publications in lieu of yearbook.....	3,469.68	
Yearbook.....		6,160.56
Traveling.....	7,273.13	3,928.64
Legal fees.....	6,503.75	6,282.34
Special report to members.....	10,386.52	5,531.14
Telephone and telegraph.....	4,014.10	3,567.23
Employer's contribution to cost of employees' pension plan.....	3,367.50	3,174.71
Social security taxes.....	3,473.62	2,907.40
Advertising and promotion of publications.....	1,088.58	2,086.49
Annual meeting.....	2,041.45	2,484.47
Books and magazines purchased.....	3,344.65	2,693.68
Purchase of equipment.....	572.59	99.74
Other items.....	9,914.92	6,827.64
Total expenses.....	<u>\$274,054.74</u>	<u>\$232,667.52</u>
Excess of income over expense.....	<u>\$ 5,918.34</u>	<u>\$ 17,960.03</u>

NOTE.—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses of the American Institute of Accountants, for which invoices were received subsequent to closing, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand for sale at the end of a year has been charged to expense at time of acquisition.

Exhibit D

AMERICAN INSTITUTE OF ACCOUNTANTS  
BALANCE SHEET  
GENERAL FUND

	August 31	August 31
	1944	1943
ASSETS		
Cash:		
Appropriated for contingency fund	\$ 9,969.94	
Unappropriated	9,846.64	
Securities (Schedule 1):		
Appropriated for contingency fund	56,684.56	
Unappropriated	6,866.90	
(quoted market value 1944—\$64,440.32; quoted market value 1943—\$35,941.25)		
Accounts receivable for examination services and other items (including in 1944 advances for em- ployees' portion of pension plan costs, \$380.80)		
Stocks of subsidiary corporations:		
American Institute Publishing Co., Inc. ....		
135 Cedar Street Corporation (carried at nomi- nal value pending dissolution of corporation)		
Furniture and equipment		
Prepaid expenses		
Total	<u>\$ 93,034.18</u>	<u>\$ 90,672.62</u>
LIABILITIES AND PRINCIPAL		
Liabilities:		
Accounts payable		\$ 4,277.90
Taxes withheld from salaries		75.76
Accrued expenses and taxes		392.25
Payroll deductions for purchase of U. S. war bonds		277.50
Due to Elijah Watt Sells scholarship fund		179.93
		<u>\$ 5,203.34</u>
Deferred income:		
Dues paid in advance	63,551.46	34,567.72
Fees of applicants, pending admission to Institute	2,372.81	2,660.83
Unfiled orders	5,000.00	5,000.00
Principal (Exhibit E):		
Appropriated for contingency fund	1.00	1.00
Unappropriated	1.00	1.00
	2,291.33	1,493.97
Total	<u>\$ 93,034.18</u>	<u>\$ 90,672.62</u>

ENDOWMENT FUND

Cash.....	\$ 744.91	\$ 3,624.57	Taxes withheld from salaries.....	\$ 15.16	15.10
Securities (quoted market value 1944—\$230,- 255.25; 1943—\$210,545.63) (Schedule 1).....	217,536.16	211,265.92	Accrued taxes.....	74.77	73.99
Interest accrued in bonds purchased.....	64.78		Principal (Exhibit E).....	218,256.92	214,802.40
Library books, furniture, and equipment.....	1.00	1.00			
Total.....	<u>\$218,346.85</u>	<u>\$214,891.49</u>	Total.....	<u>\$218,346.85</u>	<u>\$214,891.49</u>

ELIJAH WATT SELLS SCHOLARSHIP FUND

Securities (quoted market value 1944—\$1,676.25; 1943—\$1,608.75)—(Schedule 1).....	\$ 1,531.57	\$ 1,531.57	Principal—Restricted (Exhibit E).....	\$ 1,112.50	\$ 1,112.50
Due from general fund.....	179.93	169.99	Unexpended income (Exhibit E).....	599.00	589.06
Total.....	<u>\$ 1,711.50</u>	<u>\$ 1,701.56</u>	Total.....	<u>\$ 1,711.50</u>	<u>\$ 1,701.56</u>
Total assets.....	<u>\$313,092.53</u>	<u>\$307,265.67</u>	Total liabilities and principal.....	<u>\$313,092.53</u>	<u>\$307,265.67</u>

NOTE.—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses for which invoices were received subsequent to the balance sheet dates, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand for sale has been charged to expense at time of acquisition.

Exhibit E

## AMERICAN INSTITUTE OF ACCOUNTANTS

STATEMENT OF PRINCIPAL TRANSACTIONS FOR THE FISCAL YEAR ENDED AUGUST 31, 1944

GENERAL FUND	Contin- gency Fund	Unappro- priated	Total
Balance, September 1, 1943.....	\$63,250.05	\$19,084.50	\$82,334.55
Add:			
Excess of income over expenses (Exhibit F).....		12,285.13	12,285.13
Net income from securities and savings banks.....	1,153.67		1,153.67
Net profit on sales of securities.....	1,177.18		1,177.18
	<u>\$65,580.90</u>	<u>\$31,369.63</u>	<u>\$96,950.53</u>
Deduct:			
Special legal expenses.....	\$ 4,422.66	\$	\$ 4,422.66
Contribution to endowment fund to meet loss.....		5,984.06	5,984.06
Transfer.....	5,908.40	5,908.40	
Net Cost of "Proceedings of Government Accounting Conference"—			
Cost.....	\$946.46		
Less: Income from sales.....	534.32		
	412.14		412.14
	<u>\$ 1,073.60</u>	<u>\$11,892.46</u>	<u>\$10,818.86</u>
Balance, August 31, 1944.....	<u>\$66,654.50</u>	<u>\$19,477.17</u>	<u>\$86,131.67</u>

## AMERICAN INSTITUTE OF ACCOUNTANTS

STATEMENT OF PRINCIPAL TRANSACTIONS FOR THE FISCAL YEAR ENDED AUGUST 31, 1944

ENDOWMENT FUND	Balance September 1 1943	Current Year's Trans- actions	Balance August 31, 1944
Contributions, including proceeds from sale of books for which copyrights were donated to the Institute.....	\$191,264.09	\$	\$191,264.09
Initiation fees of its members contributed by the Institute.....	24,175.00		24,175.00
Net profit on sales of securities.....	6,530.04	3,454.52	9,984.56
Net cost of publication of "Accountants' Index" and first supplement.....	9,922.62		9,922.62
Balance in principal accounts (per books).....	\$212,046.51	\$3,454.52	\$215,501.03
Excess in fund, composed of excess of income over expenses; contributions from general fund; and special contribu- tions for current expenses.....	2,755.89		2,755.89
Totals.....	<u>\$214,802.40</u>	<u>\$3,454.52</u>	<u>\$218,256.92</u>
ELIJAH WATT SELLS SCHOLARSHIP FUND—RESTRICTED			
Balance, September 1, 1943 and August 31, 1944.....			<u>\$1,112.50</u>
ELIJAH WATT SELLS SCHOLARSHIP FUND—UNEXPENDED INCOME			
Balance, September 1, 1943.....			\$589.06
Excess of income over expenses (Exhibit F).....			9.94
Balance, August 31, 1944.....			<u>\$599.00</u>

NOTE.—Italics indicate red.

AMERICAN INSTITUTE OF ACCOUNTANTS  
STATEMENT OF INCOME AND EXPENSES

Year ended August 31

1944                      1943

GENERAL FUND OPERATIONS—(GENERAL ACTIVITIES)

Income:

Dues (of which \$19,031.95 for 1944 and \$16,877.92 for 1943 prorated to <i>The Journal of Accountancy</i> and <i>The Certified Public Accountant</i> —see below).....	\$153,320.32	\$141,473.53
Fees from state boards.....	11,863.90	11,200.20
Profit on publications sold.....	10,770.25	9,030.50
Application fees.....	1,940.00	1,440.00
Income from securities and interest on bank balances.....	925.69	286.07
Net profit on sales of securities.....	381.23	
Proceeds of 56th annual meeting.....	3,377.43	
Sundry income.....	215.89	192.75
Total income.....	<u>\$182,794.71</u>	<u>\$163,623.05</u>
 Expenses:		
Salaries and technical service fees.....	\$ 65,867.72	\$ 54,923.90
Expenses of research department.....		314.91
Portion of dues covering subscriptions of members and associates to <i>The Journal of Accountancy</i> and <i>The Certified Public Accountant</i> .....	19,031.95	16,877.92
Board of examiners expenses.....	20,269.08	15,068.13
Rent, electricity, and building supplies.....	9,370.15	8,233.51
Publications in lieu of yearbook.....	3,469.68	
Yearbook.....		6,160.56
Traveling.....	7,273.13	3,928.64
Honoraria.....	2,500.00	4,100.00
Stationery, printing, and supplies.....	4,634.14	3,751.52
Postage and expressage.....	5,531.38	3,581.08
Special reports to members.....	10,386.52	5,531.14
Annual meeting.....	2,041.45	2,484.47
Legal fees.....	4,503.75	4,282.34
Telephone and telegraph.....	2,805.31	2,439.49
Purchases of equipment.....	396.37	
Employer's contribution to cost of employees' pension plan.....	2,211.63	2,004.94
Social security taxes.....	1,870.53	1,583.18
Other items.....	8,346.79	5,517.36
Total expenses.....	<u>\$170,509.58</u>	<u>\$140,783.09</u>
Excess of income over expenses.....	<u>\$ 12,285.13</u>	<u>\$ 22,839.96</u>

Exhibit F  
(continued)AMERICAN INSTITUTE OF ACCOUNTANTS  
STATEMENT OF INCOME AND EXPENSES

	<u>Year ended August 31</u>	
	1944	1943
ENDOWMENT FUND OPERATIONS—LIBRARY		
Income:		
Income from securities and bank balances.....	\$ 9,331.57	\$ 9,642.08
Contributions from American Institute of Accountants Foundation (Exhibit K).....	2,807.64	2,789.63
Sales of <i>Accountants' Index Supplement</i> .....	191.34	149.63
Other items.....		.10
Total income.....	<u>\$ 12,330.55</u>	<u>\$ 12,581.44</u>
Expenses:		
Salaries.....	\$ 9,321.60	\$ 9,060.00
Rent.....	4,266.68	4,200.04
Books and magazines purchased.....	3,344.65	2,693.68
Furniture and fixtures purchased.....	97.22	99.74
Social security taxes.....	344.07	333.60
Custodian fees.....	370.14	384.04
Telephone, stationery, postage, insurance and other items.....	570.25	463.85
Total expenses.....	<u>\$ 18,314.61</u>	<u>\$ 17,234.95</u>
Excess of income over expenses ( <i>loss met by transfer from general fund—Exhibit E</i> ).....	<u>\$ 5,984.06</u>	<u>\$ 4,653.51</u>
ELIJAH WATT SELLS SCHOLARSHIP FUND—UNEXPENDED INCOME		
Income from securities.....	\$ 64.80	\$ 64.81
Less—Cost of medals for awards.....	54.86	53.66
Excess of income over expenses.....	<u>\$ 9.94</u>	<u>\$ 11.15</u>
Excess of income over expenses of all funds of American Institute of Accountants.....	<u>\$ 6,311.01</u>	<u>\$ 18,197.60</u>

NOTE.—Following the practice in prior years, income accrued on investments but not received, and ordinary operating expenses for which invoices were received subsequent to the balance sheet dates, have not been reflected in the above statement; the cost of bulletins and pamphlets on hand at the end of a year for sale has been charged to expense at time of acquisition.

NOTE.—Italics indicate red.

AMERICAN INSTITUTE PUBLISHING CO., INC.  
BALANCE SHEET

	August 31	
	1944	1943
<b>ASSETS</b>		
Cash.....	\$ 6,449.19	\$ 4,557.58
Accounts receivable (including advances for employees' portion of pension plan costs, in 1944—\$340.64).....	1,493.09	1,934.84
Inventories:		
Books and unbound sheets, at cost or nominal value (including in 1944 net unrecovered cost of Sixth Supplement—\$5,461.04).....	7,967.33	3,069.86
Paper stock, supplies, etc., at cost.....	5,957.30	4,147.80
Furniture and equipment.....	1.00	1.00
Goodwill.....	14,699.08	14,699.08
Total assets.....	\$36,566.99	\$28,410.25
<b>LIABILITIES AND CAPITAL</b>		
Liabilities:		
Accounts payable.....	\$ 2,578.40	\$ 2,201.35
Taxes withheld from salaries.....	48.61	658.97
Accrued expenses and taxes.....	486.74	488.03
Total liabilities.....	\$ 3,113.75	\$ 3,348.35
Deferred income:		
Subscriptions and advertising unearned.....	\$30,008.05	\$21,224.04
Capital:		
Capital stock—1,000 shares, no par value.....	\$ 5,000.00	\$ 5,000.00
Paid-in surplus.....	1,375.00	1,375.00
<i>Deficit</i> , August 31, 1943.....	\$2,537.14	2,537.14
Net loss for the fiscal year (Exhibit H).....	392.67	
<i>Deficit</i> , August 31, 1944.....	2,929.81	
Total capital.....	\$ 3,445.19	\$ 3,837.86
Total liabilities and capital.....	\$36,566.99	\$28,410.25

NOTE.—Italics indicate red.

AMERICAN INSTITUTE PUBLISHING CO., INC.  
STATEMENT OF INCOME AND EXPENSES

Year ended August 31  
1944            1943

## Income:

<i>The Journal of Accountancy and The Certified Public Accountant—</i>		
Subscriptions earned:		
Members and associates of American Institute of Accountants (paid by Institute).....	\$19,031.95	\$16,877.92
Other subscribers.....	48,501.97	42,791.42
Advertising.....	22,679.29	18,159.56
Sales of magazines.....	2,017.70	2,287.99
Sales of bound volumes, binding, and other items (less cost of binding).....	1,575.35	1,402.23
	<u>\$93,806.26</u>	<u>\$81,519.12</u>
Prime costs—paper, printing, and other costs.....	39,044.05	32,872.34
Income, less prime costs.....	<u>\$54,762.21</u>	<u>\$48,646.78</u>
Books:		
Sales.....	\$ 9,917.38	\$ 9,540.23
Prime costs—paper, printing, purchases, royalties and other costs..	4,726.09	5,344.36
Excess of book sales over prime costs.....	<u>\$ 5,191.29</u>	<u>\$ 4,195.87</u>
<i>Journal of Accountancy Index—net proceeds.....</i>	<u>\$ 91.33</u>	<u>\$ 176.82</u>
Income from magazines and books.....	<u>\$60,044.83</u>	<u>\$53,019.47</u>
Expenses:		
Salaries.....	\$36,718.65	\$29,364.96
Rent.....	5,866.70	5,775.01
Postage and expressage.....	5,974.70	5,710.66
Honoraria.....	2,500.00	3,400.00
Advertising and promotion.....	1,088.58	2,086.49
Legal fees.....	2,000.00	2,000.00
Employer's contributions to cost of employees' pension plan.....	1,155.87	1,169.77
Social security taxes.....	1,259.02	990.62
Stationery, printing, and supplies.....	1,795.86	1,034.26
Telephone and telegraph.....	1,046.54	974.01
Equipment purchased.....	79.00	
Insurance, taxes, discounts, and other items.....	952.58	751.26
Total expenses.....	<u>\$60,437.50</u>	<u>\$53,257.04</u>
Net loss for the fiscal year.....	<u>\$ 392.67</u>	<u>\$ 237.57</u>

NOTE.—Italics indicate red.



AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION  
STATEMENT OF ASSETS

	August 31	
	1944	1943
Assets:		
Cash.....	\$ 17,284.19	\$ 540.86
Securities (quoted market value 1944—\$90,136.13; 1943—\$60,068.25) (Schedule 2).....	89,851.80	63,473.05
Total assets.....	<u>\$107,135.99</u>	<u>\$64,013.91</u>
Liabilities.....		
Principal (Exhibit J)—		
Foundation fund.....	\$ 64,979.14	\$64,013.91
Unexpended balance of contributions for special research.....	42,156.85	
Total principal.....	<u>\$107,135.99</u>	<u>\$64,013.91</u>

	STATEMENT OF PRINCIPAL TRANSACTIONS FOR THE FISCAL YEAR ENDED AUGUST 31, 1944		
	Balance September 1, 1943	Current Year's Transactions	Balance August 31, 1944
Foundation fund:			
Initiation fees of its members contributed by the American Institute of Accounts.....	\$49,775.00	\$	\$ 49,775.00
Contributions from others.....	11,515.00	10.00	11,525.00
Profit on publication of "A Statement of Accounting Principles".....	6,028.73	263.05	6,291.78
Excess of income over contributions (to American Institute of Accountants endowment fund) and expenses.....	3,918.65		3,918.65
Net loss on sales of securities.....	7,223.47	692.18	6,531.29
Total.....	<u>\$64,013.91</u>	<u>\$ 965.23</u>	<u>\$ 64,979.14</u>
Unexpended balance of contributions for special research	\$	\$42,156.85(a)	\$ 42,156.85
	<u>\$64,013.91</u>	<u>\$43,122.08</u>	<u>\$107,135.99</u>
(a) Contributions received for special research project on selection of personnel.....		\$43,742.80	
Less—Expenses of committee on selection of personnel.....		1,585.95	
Balance, August 31, 1944.....		<u>\$42,156.85</u>	

NOTE.—Italics indicate red.

Exhibit K

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION  
STATEMENT OF INCOME, EXPENSES, AND CONTRIBUTIONS  
GENERAL ACTIVITIES

	Year ended August 31	
	1944	1943
Income from securities.....	\$3,011.44	\$2,978.89
Less—Fee of security custodian.....	203.80	189.26
Excess of income over expenses.....	<u>\$2,807.64</u>	<u>\$2,789.63</u>
Contribution to American Institute of Accountants Endowment Fund (Exhibit F).....	<u>\$2,807.64</u>	<u>\$2,789.63</u>

Exhibit L

AMERICAN INSTITUTE BENEVOLENT FUND, INC.  
STATEMENT OF ASSETS

	August 31	
	1944	1943
Assets:		
Cash.....	\$ 2,919.24	\$ 4,119.19
Securities (quoted market value 1944—\$15,179.69; 1943—\$8,162.19) (Schedule 2).....	<u>15,186.72</u>	<u>7,970.00</u>
Total assets.....	<u>\$18,105.96</u>	<u>\$12,089.19</u>
Liabilities.....		
Principal (Exhibit M).....	<u>\$18,105.96</u>	<u>\$12,089.19</u>

Exhibit M

STATEMENT OF PRINCIPAL TRANSACTIONS FOR FISCAL YEAR ENDED AUGUST 31, 1944

Balance, September 1, 1943.....	\$12,089.19
Add—	
Net profit on sale of securities.....	393.75
Excess of income over expenses and distributions (Exhibit N).....	<u>5,623.02</u>
Balance, August 31, 1944.....	<u>\$18,105.96</u>

Exhibit N

AMERICAN INSTITUTE BENEVOLENT FUND, INC.  
STATEMENT OF INCOME, EXPENSES AND DISTRIBUTIONS

	Year ended August 31	
	1944	1943
Income:		
Contributions (including donations for specific purposes).....	\$7,840.00	\$5,985.65
Income from securities.....	271.02	108.20
Interest on savings accounts.....	34.77	49.56
Recovery on payment previously made.....	200.00	
Total.....	<u>\$8,345.79</u>	<u>\$6,143.41</u>
Expenses and distributions:		
Payments made for assistance.....	\$2,650.00	\$2,400.00
Stationery, printing, and other expenses.....	72.77	74.63
Total.....	<u>\$2,722.77</u>	<u>\$2,474.63</u>
Excess of income over expenses and distributions.....	<u>\$5,623.02</u>	<u>\$3,668.78</u>

AMERICAN INSTITUTE OF ACCOUNTANTS  
SCHEDULE OF MARKETABLE SECURITIES  
August 31, 1944

Par value or No. of shares	Description	Rate %	Ma- turity	Cost	Quoted market value August 31, 1944
GENERAL FUND					
140 shares	Pacific Gas & Electric Co. 6% first preferred.....			\$ 4,764.90	\$5,215.00
20 shares	Consolidated Edison Company of New York \$5.00 preferred.....			2,102.00	2,132.50
80 shares	Consolidated Edison of New York—\$5.00 preferred (held in contingency fund).....			8,408.00	8,530.00
\$ 5,000.	Dominion of Canada (held in contingency fund).....	3	1967	5,175.00	5,125.00
\$ 2,000.	New York, N. Y., City of, corporate stock (held in contingency fund)..	3	1979	1,937.50	2,255.00
\$16,000.	United States Treasury bond (held in contingency fund).....	2½	1969/64	16,000.00	16,050.01
\$25,000.	United States Treasury bond (held in contingency fund).....	2½	1972/67	25,164.06	25,132.81
				<u>\$ 63,551.46</u>	<u>\$ 64,440.32</u>
ENDOWMENT FUND					
\$10,000.	Argentine Republic external conversion loan.....	4	1972	\$ 9,100.00	\$ 8,812.50
\$ 5,000.	Atlantic Coast Line Railroad Company, series A.....	4½	1964	3,912.50	4,375.00
\$ 5,000.	Canadian Pacific Railway Company	4	perpetual	4,862.50	4,725.00
\$10,000.	Chicago and Northwestern Railway Company, first and general mortgage bonds.....	4	1989	10,425.00	10,500.00
\$ 5,000.	Dominion of Canada.....	3	1967	5,173.75	5,125.00
\$10,000.	Erie Railroad Company first consolidated mortgage, series B.....	4	1995	10,372.19	10,575.00
\$ 1,000.	Gatineau Power Company series A first mortgage.....	3¾	1969	982.50	1,000.00
\$10,000.	Great Northern Railway Company gold bonds, series E general mortgage.....	4½	1977	9,257.50	10,950.00
\$10,000.	Louisville & Nashville Railroad Company gold bonds, series D first and refunding mortgage....	4	2003	10,280.00	10,475.00
\$ 5,000.	Macon Terminal Company guaranteed first mortgage gold bonds....	5	1965	5,400.00	5,337.50
\$ 5,000.	New York Central Railroad Company refunding and improvement mortgage A.....	4½	2013	\$ 2,912.50	\$ 3,318.75
\$ 5,000.	New York Central & Hudson River Railroad Company Lake Shore collateral.....	3½	1998	4,257.50	3,750.00
\$12,000.	New York, N. Y. City of, corporate stock.....	3	1979	11,747.50	13,530.00
\$ 5,000.	Pennsylvania Railroad Company general mortgage, series E.....	4¼	1984	4,998.75	5,762.50
\$ 5,000.	Pere Marquette Railway Company first mortgage gold bonds, series C	4½	1980	3,187.50	4,818.75
\$ 5,000.	Reading Company series A general and refunding mortgage gold bonds.....	4½	1997	5,262.50	5,243.75

(Forward)

Schedule No. 1  
(continued)

AMERICAN INSTITUTE OF ACCOUNTANTS  
SCHEDULE OF MARKETABLE SECURITIES  
August 31, 1944

Par value or No. of shares	Description	Rate %	Ma- turity	Cost	Quoted market value August 31, 1944
ENDOWMENT FUND (continued)					
(Forward)					
\$ 5,000.	St. Louis-San Francisco Railway Company series B prior lien mortgage—stamped (interest in default).....	5	1950	4,377.50	2,237.50
\$ 5,000.	Southern Pacific Company gold bonds.....	4½	1981	4,471.25	3,718.75
\$17,000.	United States of America savings bonds, series G.....	2½	1953	17,000.00	16,252.00*
\$ 9,000.	United States of America savings bonds, series G.....	2½	1955	9,000.00	8,802.00*
50 shares	Allied Chemical & Dye Corporation, common.....			7,412.25	7,575.00
50 shares	American Telephone and Telegraph Company, capital stock.....			7,564.26	8,200.00
100 shares	Bethlehem Steel Corporation 7% cumulative preferred.....			12,325.00	12,350.00
200 shares	Commonwealth & Southern Corporation \$6.00 preferred.....			11,036.00	17,525.00
100 shares	Consumers Power Company \$4.50 preferred.....			10,383.18	11,000.00
200 shares	General Electric Company, common			7,155.29	7,600.00
100 shares	General Motors Corporation, common.....			4,912.22	6,212.50
50 shares	P. Lorillard Company preferred....			7,839.55	8,087.50
15 shares	Pacific Gas & Electric Company 6% first preferred.....			\$ 510.53	\$ 558.75
100 shares	Standard Oil Company of New Jersey.....			5,036.94	5,400.00
50 shares	United States Steel—7% cumulative preferred.....			6,380.00	6,437.50
	Total—endowment fund.....			<u>\$217,536.16</u>	<u>\$230,255.25</u>
ELIJAH WATT SELLS SCHOLARSHIP FUND					
45 shares	Pacific Gas & Electric Company 6% first preferred.....			\$ 1,531.57	\$ 1,676.25
	Totals—general, endowment, and Elijah Watt Sells scholarship funds.....			<u>\$282,619.19</u>	<u>\$296,371.82</u>

\* Current redemption value.

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION  
SCHEDULE OF MARKETABLE SECURITIES  
August 31, 1944

Par value or No. of shares	Description	Rate %	Ma- turity	Cost	Quoted market value August 31, 1944
\$10,000.	Canadian Pacific Railway Co. debenture stock consolidated.....	4	Perpetual	\$ 9,200.00	\$ 9,450.00
\$ 4,000.	Gatineau Power Co. series A first mortgage.....	3¾	1969	3,930.00	4,000.00
\$ 5,000.	Illinois Central Railroad Co. and Chicago, St. Louis & New Orleans Railroad Co. series A joint first refunding mortgage.....	5	1963	4,525.00	3,525.00
\$ 5,000.	New York Central Railroad Co. refunding and improvement mortgage series A.....	4½	2013	2,912.50	3,318.75
\$ 5,000.	Pennsylvania Railroad Co. series E general mortgage.....	4¼	1984	4,900.00	5,762.50
\$ 5,000.	Southern Pacific Co.....	4½	1981	4,251.25	3,718.75
\$ 3,000.	United States of American Savings bonds series G.....	2½	1953	3,000.00	2,868.00*
\$ 5,000.	United States of America Savings bonds series G.....	2½	1955	5,000.00	4,890.00*
\$25,000.	United States Treasury Notes series B (held for Special Research Project)..	1¼	1947	25,000.00	25,078.13
100 shares	Kennecott Copper Corporation common.....			3,241.00	3,212.50
50 shares	P. Lorillard Company preferred.....			7,839.55	8,087.50
100 shares	New Jersey Zinc Company capital stock.....			6,269.00	6,062.50
100 shares	Pacific Gas & Electric Company 6% first preferred.....			3,403.50	3,725.00
50 shares	U. S. Steel 7% cumulative preferred..			6,380.00	6,437.50
	Total.....			<u>\$89,851.80</u>	<u>\$90,136.13</u>
	* Current redemption value.				
	AMERICAN INSTITUTE BENEVOLENT FUND, INC.				
\$ 5,000.	Dominion of Canada.....	3	1967	\$ 5,175.00	\$ 5,125.00
\$ 5,000.	United States Treasury bonds.....	2	1953/51	5,011.72	5,039.06
\$ 5,000.	United States Treasury bonds.....	2½	1969/64	5,000.00	5,015.63
	Total.....			<u>\$15,186.72</u>	<u>\$15,179.69</u>

### Report of Council

TO THE MEMBERS OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: This has been a year in which so much has happened that it is difficult to sort out the pieces and put them together in an orderly pattern. It would take all day to describe even briefly the activities of Institute committees, officers and staff which have been reported to, and passed upon, by the council. In this report it is possible to mention only the highlights, and to add the admonition that no member can consider himself well in-

formed on the affairs of his profession unless he reads the reports of officers and committees of the Institute, which will soon be published.

#### MAJOR ACTIVITIES

The most striking feature of the past year's work has been the increasing participation of the Institute in discussions of matters of public policy in which accounting is involved. Our representatives have appeared formally before Congressional committees, the United States Supreme

Court, administrative agencies of the government, and the National Association of Railroad and Utilities Commissioners; and have met informally with individual members of Congress and staffs of Congressional committees, the staffs of government agencies, and officials of the New York Stock Exchange. These appearances and meetings were devoted to discussions of accounting questions related to war-contract termination, federal tax policy and administration, federal government accounting, public-utility rate regulation, and financial reports of corporations.

All this is highly significant for two reasons: first, it demonstrates the increasing recognition of accounting as an instrument of public policy, or as a "social force," as one of our members has expressed it; and second, it implies acceptance of the certified public accountants as the principal source of authoritative opinion on accounting principles and auditing standards. The future opportunities and responsibilities of practicing certified public accountants may be foreshadowed by the activities of the Institute in the field of public affairs.

#### *Termination*

There is no doubt that the Institute exercised a perceptible influence on the accounting and auditing provisions of the War-Contract Termination Act of 1944, which incidentally is one of the very few federal statutes which specifically mention certified public accountants. The appearances before Congressional committees on this matter have been followed by requests for the assistance of Institute representatives in formulating rules and devising procedures under the act. War-contract termination is a matter of major public importance and the Institute has made a valuable contribution to the formulation of orderly and practicable policies and procedures.

#### *Taxation*

The vigorous campaign which the Institute has waged and is waging for creation of a non-partisan commission to overhaul the federal tax system made a distinct impression upon Congress and upon the public. The committee on federal taxation has appeared twice before government staff

experts and many of its suggestions have been adopted. There have also been conferences with Bureau and Treasury officials on various matters. Members of the Institute have been appointed on important advisory groups which are studying tax policies. It is still hoped that the amended rules of the Tax Court, requiring examination of certified public accountants who wish to be admitted to practice before it, may be amended. Consideration is being given to ways and means of bringing the rules of tax authorities into conformity with generally accepted accounting principles.

The activities of the Institute in the field of taxation have expanded, and it is the purpose to expand them still more. Taxation is a field in which accounting is of prominent importance, and the profession should make its voice heard in the determination of policies and procedures.

There may be some significance in the recent proposal of an outside group which received favorable comment from a member of the House Ways and Means Committee, that taxable income as certified by a certified public accountant be accepted by the government without further audit.

#### *Cooperation with Bar Association*

The profession welcomes a recent expression of opinion by the American Bar Association committee on unauthorized practice of the law, that certified public accountants may properly prepare income tax returns. The statement followed discussions in the newly-created National Conference of Lawyers and Certified Public Accountants, consisting of five representatives of the Bar Association and five representatives of the Institute, which gives promise of serving as a strong link between the two professions.

A decision of the Supreme Court of Massachusetts in a case in which the Massachusetts Society of Certified Public Accountants, in cooperation with the Institute, filed a brief as *amicus curiae*, also clarified to some extent the relation of tax practice to the practice of law.

The tax section of the American Bar Association cooperated closely with the Institute in the effort to persuade Congress to create a non-partisan body of experts to aid in tax revision.

*Regulatory Agencies*

Accounting has proved to be an indispensable element in government regulation of various areas of industry and commerce, such as public utilities, investment companies, and corporations distributing securities to the public. Since the several agencies exercising regulatory authority in the different fields have somewhat different purposes (such as assuring consumers of fair rates on the one hand, or assuring investors against over-statements of profits on the other), there sometimes appears to be a tendency to make accounting rules which will facilitate achievement of the immediate objective, without due consideration of generally accepted accounting principles. If such a tendency became widespread, accounting chaos might result. There is already a great disparity among the accounting rules of various government agencies and among decisions of the courts on accounting matters. The Institute has considered it a duty to the general public to point out divergencies from generally accepted accounting principles on the part of regulatory bodies and to encourage conformity to the full extent possible. During the past year, this policy has led to a number of discussions with the Securities and Exchange Commission and its staff, to an appearance as *amicus curiae* before the Supreme Court in a case in which an accounting rule of the Federal Power Commission was involved, and to an appearance before the National Association of Railroad and Utilities Commissioners with respect to a proposed definition of depreciation.

*Federal Government Accounting*

Accounting and auditing procedures of the federal government are far behind those of private business and the taxpayers suffer thereby. The Institute succeeded in focusing attention on some of the deficiencies by arranging a conference on federal government accounting in New York last fall, in which representatives of the General Accounting Office, Bureau of the Budget and Treasury Department, as well as representatives of a number of administrative agencies, participated. The proceedings of this conference will serve as the basis for further study of the problem.

A statement by Institute representatives relating to audits of federal government corporations was cited on the floor of Congress and later quoted in the *Congressional Record* in a debate on the question whether an appropriation for audit of a federal corporation by independent certified public accountants should be eliminated. It was decided that the appropriation should stand.

*Independence*

A special committee has been appointed to study the various concepts of the accountant's independence. There have been questions in recent years which indicate that official bodies and individuals outside the profession may have assumed the accountant's position to be different from that which he himself has always assumed to be sound. Since independence is the basic economic justification for the public accountant's existence, the question deserves careful study.

*Uses of Financial Statements*

At the suggestion of the committee on postwar problems, a special study has been authorized of the possibility of new forms of financial or statistical statements to serve varying social and economic purposes.

*Small Business*

At the invitation of Representative Wright Patman, Chairman of the Select Committee on Small Business of the House of Representatives, the Institute is cooperating with the staff of that committee in consideration of measures which might aid small business in postwar readjustment.

*Professional Affairs*

Not all the major activities of the Institute have been in the field of public affairs. A number of important steps have been taken to improve professional standards, personnel, education and organization. An ambitious research project in selection of accounting personnel has been undertaken which it is hoped may indicate means of selecting candidates best qualified for the profession, and may indirectly result in improvement in staff training and employment policies, accounting curricula in colleges and the form and content of C.P.A. examinations.

### *Refresher Courses*

Recognizing the profession's obligation to provide a way for public accountants who have served in the armed forces to reorient themselves in the profession, the Institute has undertaken to provide refresher courses in accounting, auditing and taxes. The work has begun in earnest. It is planned to offer the course material to schools and colleges and to make it available also for home study. The experience acquired in preparing these refresher courses may lead to opportunities for service in the field of adult education in accounting.

### *State Legislation*

Model accountancy bills, of both the regulatory and permissive types, have been prepared by the committee on state legislation and circulated for criticism of the council, state boards of accountancy and state societies. Final drafts of these bills will soon be ready for approval.

Council has concurred in the executive committee's expression of preference for "regulatory legislation, provided that restrictions of interstate practice are eliminated."

### *Manpower Rules*

In the early part of the year, Institute representatives spent a great deal of time and effort in conferences and communications with government officials, with the object of preserving the essential status of certified public accountants and accounting firms, to the extent that their professional services were rendered to essential industries, under the rules of Selective Service and the War Manpower Commission.

### *Gasoline Rationing*

Through the efforts of the Institute, regulations of the O.P.A. were amended so as to recognize the essential nature of public accounting services for purposes of supplementary gasoline rations.

## REGULAR SERVICES

The special activities which have been recited are impressive, but they should not be permitted to obscure the services which have been rendered by the Institute to the profession as a whole and to its

individual members through continuation of the regular program of activities which are basic justification for the organization's existence. The major part of both committee and staff work is devoted to these regular activities.

### *Standard Examinations*

The board of examiners has constantly improved the Institute's standard examination, which now has been adopted by 42 states, 4 territories, and the District of Columbia, and the Treasury Department.

### *Professional Conduct*

The committee on professional ethics has published interpretations of some of the rules of professional conduct, has answered many inquiries from individuals, and has considered complaints.

The most important matter presented by the committee during the year was the Associated Gas and Electric Company case, on which a report of the council's action was published in *The Journal of Accountancy* for August, 1944.

### *Publications*

The circulation of *The Journal of Accountancy* has increased from 19,869 to 23,452 during the current year, and advertising revenue has risen from \$18,160 to \$22,679. *The Certified Public Accountant* has been published monthly. Committee reports, research bulletins and other special publications have appeared. Members will recall having received during the year, data related to federal income taxation, Selective Service requirements, contract termination, O.P.A. reports and other wartime regulations of immediate interest.

### *Research*

Although the research department has suffered from loss of personnel, the program of research in accounting and auditing has continued and bulletins have been issued. Provision has now been made for publication of tentative statements on current accounting and auditing problems which may serve as a basis for discussion and criticism by the membership and the state societies before the technical committees report their final conclusions.



*Publicity*

The activities of the Institute this year have been widely noted in the public press. Newspaper references to the Institute, which were once a curiosity, have now become commonplace. It is a regular part of the day's work to inform the press of actions or opinions of the Institute which relate to matters of general public interest.

*State Societies*

For eight years, it has been one of the major purposes of the Institute to assist and cooperate with the several state societies of certified public accountants and there have been many gratifying testimonials to the success of the efforts in that direction. Now it has been proposed that an attempt be made to achieve even closer coordination of the activities of the state and national organizations by creation of a special department in the Institute's staff, whose duty would be to clear information to state societies, assist them in developing activity programs, seek their views on important questions before the Institute, provide speakers for meetings, and in a word, act to the full extent possible as a central secretarial staff of state societies.

## CONDITION OF THE INSTITUTE

*Membership*

The membership of the Institute has passed 8,000, a rather striking figure when one recalls that only 8 years ago, following the merger of the American Society of Certified Public Accountants and the Institute, the combined organization had a membership of about 4,000. In the past year, and the preceding two years, the average net gain has been 10%, whereas before that time the average was nearer 5%. One gratifying fact is that losses from resignations and non-payment of dues in recent years have been less than one-half of 1%. The accelerating rate of increase in membership is probably due to a combination of factors: the need of accountants for information on wartime problems, the widening knowledge of the Institute's work among certified public accountants, and the important services to the public, to the profession and to its members which the Institute has recently rendered.

*Finances*

As the revenues of the Institute increase with the growth in membership, the money is expended for purposes which seem likely to produce benefits to the profession. Beyond a modest contingency fund, it is not the policy of the Institute to accumulate any reserves. It has been the practice to use the money contributed by members in a given year for the greatest service to those members. The limits of the opportunity for further service by the Institute are still far distant. Each single undertaking opens the way to even larger projects. So long as its revenues are in approximate balance, the council is content.

Last year, there was an excess of revenues over expenditures of \$5,900, but there were expenditures from the contingency fund of about \$4,800. The budget for the coming fiscal year indicates that expenditures will exceed revenues by about \$14,000. The estimates of revenue are conservative and may exceed expectations, but if not, the council has authorized the difference to be made up from the contingency fund.

Detailed financial statements, as certified by the Institute's auditors, and also lists of charges in the securities portfolio will be published for the information of members.

*Staff*

Like most organizations, the Institute has suffered losses of staff personnel during the year and has found difficulty in finding suitable replacements. This has added greatly to the burden of those who remained at their posts. To these the council is grateful for the extra effort which they have put forth, and which has prevented any loss in effectiveness.

Since the United States entered the war, the Institute has lost 23 staff employees. Nine of them have entered the armed forces. In replacing those who have withdrawn, it has been necessary to employ 58 new assistants, so rapid has been the turnover.

During the past year H. T. Winton, assistant secretary, and George N. Farrand, research assistant, accepted commissions in the Navy. Mr. Winton's work has been assumed by other members of the staff. Paul J. Graber, associate professor

of the Oklahoma A and M College, has been employed as research assistant.

Last May the council approved a plan of staff organization recommended by the executive committee as necessary to meet the requirements of the Institute in the light of present and expected demands. The plan called for a full-time director of research, a position which had previously been held on a part-time basis. James L. Dohr, who held the position for three years, indicated that commitments to the law firm of which he is a member, and to Columbia University of whose faculty he is a member, are such that he cannot give the Institute his full time. It is with the greatest regret that we see him terminate his services as director of research, and we wish to record this expression of our appreciation of the valuable services rendered the Institute by Mr. Dohr. The post of full-time director of research was offered to Carman G. Blough, and the council is happy to report that he has accepted the appointment. Mr. Blough is a member of the Institute and has served on some of its important committees, including the committee on accounting procedure. He has been a teacher of accounting, chief accountant of the Securities and Exchange Commission, a partner of a public accounting firm, and for the past two years has been with the War Production Board, of which he is Director of the Procurement Policy Division. He is now president of the American Accounting Association. Under his direction, the council is confident that the plans for expansion of the technical work of the Institute after the war will be carried out in a manner which will receive the enthusiastic approval of the membership.

The new plan of staff organization also called for creation of a new position, that of educational director, to carry on the staff work related to the preparation of the standard C.P.A. examination, refresher courses for returning veterans, the project in selection of accounting personnel, and other educational activities of the Institute. This new position was accepted in August by Thomas W. Leland, head of the department of accounting and statistics of the Agricultural and Mechanical College of Texas, and a vice-president of the American Accounting Association. Mr. Leland holds degrees from State Teachers College, Osh-

kosh, Wisconsin, and the University of Wisconsin. He has taught at the University of Pennsylvania and Northwestern University, as well as Texas Agricultural and Mechanical College. He is a past president of the Texas Society of Certified Public Accountants, and has served as secretary of the Texas Society for a number of years. He has served as a member of several Institute committees and recently as chairman of the committee on education.

The new plan of staff organization will be in full effect when several additional assistants for which it provides can be secured. The council believes that the Institute will enter the postwar readjustment period with a staff organization composed of specialists in the various aspects of the work who are competent to deal with problems of any nature that may arise. The Institute committees may expect greater staff assistance than ever before, and the prospect of increased accomplishment is immeasurably widened.

#### *Activities of the Council*

To many members, the council which governs the Institute may seem a remote and impersonal body. It should be borne in mind that it consists of 48 members elected by the membership as a whole, from all sections of the country. Your neighbors compose the council.

The council has held three meetings, two of which lasted one day, and one of which lasted two days, at which all the matters discussed in this report and many others in addition have been submitted for review and action. The council has received copies of the minutes of all meetings of the executive committee and full detailed reports from the committees and the staff. Council has adopted a number of resolutions during the year which have been published. It has debated and discussed many questions of policy.

Continued uncertainties as to the effect of the war on travel and hotel accommodations indicate the desirability of suggesting again that the membership empower the executive committee to choose the time and place for the next annual meeting of the Institute and determine the scope of the program.

The undersigned committee designated to prepare this report on behalf of the council believes that it expresses the sense

of the entire body in stating that the council is fully satisfied with the manner in which the responsibilities it has delegated have been discharged and with the accomplishment of the Institute in the past year. It looks forward with great confidence to an even more ambitious program which will help to strengthen and unite the accounting profession and add to the re-

spect with which it is regarded by the public.

Respectfully submitted,

Special Committee  
J. A. PHILLIPS, *Chairman*  
THORNTON G. DOUGLAS  
FRED J. PETERSON

October 16, 1944

### Report of the Executive Committee

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The executive committee has held two meetings since rendering its report to the council last May: one on July 6th, the minutes of which were sent to all members of the council, and one on October 15th at St. Louis.

#### MEMBERSHIP

The membership at August 31, 1944, was 7,996, a net gain of 859 for the year. Deaths of 23 members and associates have been reported since May as follows:

#### Members

Daniel Badger	John D. Murphy
Albert C. Bischel	Edward J. Murray
Samuel W. Brown	Ernest O. Palmer
E. Harold C. Clark	Kester J. Peers
W. H. Cullen	W. Havard Perkins
Harry Einbund	Mark B. Schreiner
P. G. Goode	I. J. Schulte
Sidney J. Hayles	John C. Scobie
John F. W. Heinbokel	Guy Miller Scott
F. S. Jacobsen	W. W. Vincent
George D. Wolf	

#### Associates

O. C. Horn	H. B. Lingle
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#### STAFF ORGANIZATION

Progress has been made in rounding out the staff organization outlined in the plan submitted to the council with the report of the executive committee last May.

Thomas W. Leland, head of the department of accounting and statistics at the Agricultural and Mechanical College of Texas, accepted the new staff position of educational director and began work in August. He will direct the staff work relating to activities of the board of examiners, including the preparation of the standard examination; he has assumed

responsibility, under the direction of a committee, for preparation of refresher course material to assist in the reorientation of public accountants who have served in the armed forces; he will participate in the research project under the direction of the committee on selection of personnel; and will coordinate these projects with other educational activities of the Institute.

Professor James L. Dohr, who has been serving as research director on a part-time basis, could not give full time to the work, and asked to be permitted to return to Columbia University, which was in urgent need of his services in planning its postwar program.

Carman G. Blough has accepted the position of full-time director of research, and will take up his duties about November 15th. Mr. Blough's qualifications are well known to the council. He is admirably equipped to assume this position.

George N. Farrand, research assistant, accepted a commission in the Navy, as was expected, early in August. Paul J. Graber, Associate Professor of Accounting at Oklahoma A & M College, has recently been engaged as research assistant.

Elizabeth Arliss is serving as acting assistant secretary in the absence of H. T. Winton, assistant secretary, who is now an officer in the Navy.

#### AUDITORS

The executive committee was empowered by the council to deal with the question of compensating the auditors of the Institute, and has recommended an amendment to the by-laws providing for the appointment each year of a single firm of certified public accountants to audit the Institute's accounts for compensation and submit its report to the membership. The executive committee resolved to offer the present

auditors an honorarium of \$1,000, for which provision has been made in the current budget.

#### TENTATIVE STATEMENTS ON TECHNICAL QUESTIONS

Following the meeting of council in May, the executive committee approved modifications submitted by the committee on accounting procedure in the plan for issuance of tentative interim studies of accounting and auditing problems of broad professional interest, on which no final conclusions had been reached by the Institute's technical committees. The plan, as modified, is as follows, and will be put into effect as soon as occasion arises:

1. The present procedure of the two committees with respect to Accounting Research Bulletins and Statements on Auditing Procedure should be continued as heretofore.

2. As an additional and separate activity of the Institute a series of memoranda should be initiated dealing with accounting and auditing questions. They are not to be issued as definitive pronouncements of the Institute but primarily as an educational activity of the Institute.

(a) Such memoranda should deal with subjects believed of current interest to the membership generally.

(b) The issuance of any memorandum to be prepared by the research department and published in *The Journal of Accountancy*, or otherwise, should be under the supervision of either the committee on accounting procedure or the committee on auditing procedure, according to the content of the memorandum.

(c) Although the memoranda might discuss questions pro and con, stating various aspects of the subject considered, they should not undertake to express the views of any committee or officer of the Institute.

(d) In the first memorandum of the new series the plan of issuance should be outlined.

#### ASSOCIATED GAS CASE

The executive committee reviewed and approved a statement prepared by a subcommittee appointed for the purpose by authority of the council, reporting the action of the council in the matter of Associated Gas and Electric Company, which was presented by the committee on professional ethics at the May meeting.

The statement was published in *The Journal of Accountancy* for August, 1944, and was transmitted to the Securities and Exchange Commission.

#### POSTWAR PROBLEMS

The report of the committee on postwar problems which had been referred by council to the executive committee, was discussed at length. The question of adaptation of corporate reports to various social purposes was referred back to the committee on postwar problems for further study and elaboration, with the assistance of the research department.

#### INDEPENDENT STATUS OF PROFESSIONAL PUBLIC ACCOUNTANTS

A special committee was authorized and later was appointed by the president to carry out the suggestion that the problems related to the independent status of the professional public accountant be studied intensively. The special committee has outlined a program and has made a report of progress to the executive committee.

#### REFRESHER COURSES

A special committee was authorized and appointed to deal with the proposal that refresher courses be prepared to assist in the reorientation of public accountants who have served in the armed forces. This committee has been very active; it has had two meetings, has conferred with the Veterans Administration and with educational institutions, and has prepared a program to accomplish its purpose.

#### NON-PARTISAN TAX COMMISSION

The committee on federal taxation will report the present status of the Institute's proposal that a non-partisan tax commission be created by Congress, to assist in overhauling the federal tax system. The executive committee recommends that the Institute continue its efforts to bring about adoption of this recommendation.

#### PRACTICE BEFORE TAX COURT

Efforts have been continued to bring about reconsideration of the rules of the United States Tax Court, adopted more than a year ago, providing that certified public accountants applying for admission

to practice before the Court must sit for written examination.

#### ACCOUNTING IN TAX CASES

The executive committee approved a suggestion from the committee on federal taxation that the Institute endeavor to encourage the application of generally accepted accounting principles in the determination of taxable income by the administrative agencies of the federal government and the courts.

The executive committee considered a suggestion which had been made by a taxpayers' organization to certain Congressmen that reports of income, certified by certified public accountants, be accepted by the Bureau of Internal Revenue without further audit. It was reported that this matter was on the agenda for discussion at a joint meeting of the Advisory Council of State Society Presidents with the council of the Institute Monday evening, October 16th. It was resolved that the matter be referred to the incoming executive committee in the light of the discussion at that joint meeting.

#### RELATIONS WITH BAR ASSOCIATION

The National Conference of Lawyers and Certified Public Accountants, organized last spring under authority of the executive committee and the House of Delegates of the American Bar Association, held its second meeting in Chicago, September 10th. A resolution was adopted expressing the opinion of the Conference that both lawyers and certified public accountants may properly prepare income tax returns. A full report of the activities of the Conference will be submitted to the council by the co-chairman representing the Institute.

#### REGULATORY LEGISLATION

The lawyer members of the National Conference have urged the advantages of regulatory legislation as a means of confining the practice of public accounting to licensed practitioners. The subject of regulatory legislation has been the center of much controversy within the accounting profession in past years. The Institute's position since 1940 has been one of complete neutrality. Council, by revoking an earlier resolution at that time, in effect laid down the policy that the Institute would assist any state society of certified

public accountants in preparing the best possible bill to accomplish the results which the state society had decided it wished to achieve. Since that time, the committee on state legislation, with the assistance of counsel for the Institute, has prepared model bills, of both the permissive and regulatory type, to serve as a guide to state societies which may desire either type of legislation. The draft model bills will be presented by the committee on state legislation for consideration by the council.

It has been reported that two state societies are working on regulatory bills for introduction in their state legislatures, and two others are actively considering the question. Regulatory laws are now in effect in 14 states.

The executive committee, for the information of the council, expresses its preference for regulatory legislation, provided that restrictions of interstate practice are eliminated.

#### SMALL BUSINESS

The executive committee authorized the president and secretary to cooperate to the full extent possible with the Select Committee on Small Business of the House of Representatives, whose chairman, Representative Wright Patman, had invited the Institute to submit suggestions for legislation which might be helpful to small business in the postwar readjustment period. The secretary of the Institute has since corresponded with the staff of the Select Committee, and a conference is expected in the near future.

#### AMERICAN ACCOUNTING ASSOCIATION

The executive committee authorized the president to appoint official representatives of the Institute to attend the annual meeting of the American Accounting Association in Chicago, September 8th and 9th. Five official representatives of the Institute attended the meeting, where Edward A. Kracke, member of the executive committee, was introduced as the head of the delegation.

#### YEARBOOK

After discussion of the problem of publishing the Institute's yearbook at a date sufficiently early, so that its contents would be of current interest, it was resolved that

henceforth the list of members and associates of the Institute be published separately in stiff paper covers and as early as possible in the fiscal year, and that the yearbook in cloth binding, be confined to proceedings of the annual meeting, committee reports, lists of officers, council and committees, by-laws and rules of professional conduct, and similar data of current interest.

#### ANNUAL MEETING

The executive committee decided to carry out the plans for the 1944 annual meeting, in spite of transportation difficulties, in the sincere belief that the technical discussions would assist members in the discharge of their wartime responsibilities.

In view of continuing uncertainty as to the availability of transportation and hotel accommodations in various sections of the country, it is recommended that discretion be left with the executive committee to select the place for the 1945 meeting and determine the scope of the program.

#### PENSION PLAN

The American Institute Pension Plan, adopted by the council in May, 1943, was put into effect before the latest regulations on the subject had been issued by the Bureau of Internal Revenue, and the Bureau refused to pass on any plans prior to the issuance of those regulations. Following publication of the regulations, counsel of the Institute submitted the plan for Bureau review, and a number of amendments have been suggested. The executive committee has reviewed the proposed amendments and recommends their adoption by the council. They do not alter the fundamental structure of the plan, but merely alter administrative procedures. While the American Institute of Accountants is exempt from federal income taxation, the Publishing Company, whose employees are also benefited by the plan, is taxable, and it seems desirable as a matter of policy for the Institute's plan to conform with the government's regulations.

#### SECURITIES

The following purchases and sales of securities in the several funds of the

Institute have taken place during the current fiscal year:

#### GENERAL FUND

##### Purchases

\$50,000 United States Treasury bonds, 2%, 1953/51, @ 100 $\frac{1}{3}$ $\frac{1}{2}$ .....	50,117.19
20 shares Consolidated Edison Company of New York, @ 104 $\frac{3}{4}$ .....	2,102.00
	<u>52,219.19</u>

##### Sales

\$ 2,000 New York City, 3%, 1967, @ 112 $\frac{3}{8}$ .....	\$ 2,242.50
50,000 United States Treasury Bonds, 2% 1953/51 @ 100 $1\frac{1}{2}$ $\frac{1}{2}$ .....	50,235.94
	<u>52,478.44</u>

#### CONTINGENCY FUND

##### Purchases

\$25,000 United States Treasury Bonds, 2 $\frac{1}{2}$ %, 1972/67 @ 100 $2\frac{1}{2}$ $\frac{1}{2}$ .....	25,164.00
5,000 Dominion of Canada, 3%, 1967, @ 103 $\frac{1}{4}$ .....	5,175.00
80 shares Consolidated Edison Company of New York, @ 104 $\frac{3}{4}$ .....	8,408.00
	<u>38,747.00</u>

##### Sales

\$5,000 New York City, 3%, 1957, @ 111 $\frac{7}{8}$ .....	5,581.25
5,000 New York City, 3%, 1977, @ 109 $\frac{7}{8}$ .....	5,481.25
	<u>11,062.50</u>

#### ENDOWMENT FUND

##### Purchases

\$ 2,000 Erie Railroad first consolidated mortgage, Series B, 4%, 1995, @ 105 $\frac{3}{8}$	\$ 2,112.50
6,000 Erie Railroad first consolidated mortgage, Series B, 4%, 1995, @ 105 $\frac{1}{2}$	6,345.00
750 Erie Railroad first consolidated mortgage, Series B, 4%, 1995, @ 105 $\frac{7}{8}$	795.94
1,000 Louisville & Nashville Railroad Co. first and ref. mtg., 4%, 2003, @ 105	1,052.50
4,000 Louisville & Nashville Railroad Co. first and ref. mtg., 4%, 2003, @ 105 $\frac{1}{8}$ .....	4,215.00
2,000 Southern Pacific	



which 70 have been approved by the board and submitted to council.

The work of the board of examiners relating to admissions is reflected in the following statistical record for the fiscal year:

	Mem- bers	Associ- ates	Total
Admitted on Institute examination..	187	288	475
Admitted on other examinations.....	251	224	475
Admitted on oral examination.....	1		1
	<u>439</u>	<u>512</u>	<u>951</u>

Twenty-six associates have been advanced to membership.

#### EXAMINATIONS

The standard examination prepared by the board of examiners is now used by the boards of forty-two states, the District of Columbia, four territories, and by the Treasury Department. The list of cooperating states and territories using the last two uniform examinations follows:

##### November 1943

Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, Oklahoma, Oregon, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Virgin Islands, Washington, West Virginia, Wyoming, and the Treasury Department.

##### May 1944

Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Puerto Rico, South Dakota, Tennessee, Texas, Utah, Vermont, Washington, West Virginia, Wyoming, and the Treasury Department.

The non-cooperating states at present

are Maryland, New Jersey, New York, Ohio, Pennsylvania, and Wisconsin.

One cooperating state and one cooperating territory offered no examination in November 1943 and five states and two territories did not offer an examination in May 1944. Eleven states used the questions but not the grading service in the November 1943 examination and seven states made a similar arrangement in the May 1944 examination. The charges for those states using the questions only are as follows:

\$2.00 for first hundred candidates  
 \$1.00 for second hundred candidates  
 \$0.50 for all in excess of two hundred candidates  
 \$0.10 for each set of questions ordered but not used.

The charges to jurisdictions using the uniform examination and the grading service are an amount equal to 50% of the charges made by the state board but not exceeding \$10.00 for each candidate. The costs of the services rendered by the Institute in connection with the examinations are approximately \$17,500 a year. The receipts from state boards for the service are approximately \$11,500 a year. The cooperation of boards with the Institute is on a voluntary basis and it is essential for the Institute to supply satisfactory examinations and render acceptable service in order to maintain the cooperative plan. Under the arrangements made with the boards the Institute recognizes their sovereignty in the grading of examinations of candidates for certificates and the final decision with respect to grades lies with the boards and not with the examining staff of the Institute.

Papers for the November, 1943, examination were submitted by 1689 candidates, and papers of 684 candidates were graded by the examining staff of the Institute. In the May, 1944, examination 1289 papers were submitted, of which 722 were graded by the Institute. Statistics of the candidates passing these two examinations follow:

Subject	No. of Candidates		Percentage Passing	
	Nov. 1943	May 1944	Nov. 1943	May 1944
	Auditing.....	436	377	64.5
Commercial Law...	480	437	49.2	48.5
Theory of Accounts	520	433	67.3	68.4
Accounting Practice	644	713	9.8	10.2



It frequently has been stated that the time required for the solution of the problems in accounting practice is more than the time available for their solution. In recognition of this objection the board has decided upon the use of only two problems in each session of the November, 1944, examination, whereas formerly it was the practice to require the solution of three problems.

The Institute's board of examiners has cooperated with the executive committee of the Association of Certified Public Accountant Examiners in the preparation and distribution of a questionnaire to state boards of public accountancy with the objective of ascertaining the educational and experience background of the candidates in the CPA examinations and the influence of these factors on the success or failure of the candidates in accounting practice. This questionnaire was mailed to the secretaries of the state boards of accountancy on September 14, 1944, and to date 20 replies have been received. The board will analyze the replies received to this questionnaire.

The November, 1944, examination has been approved by the board of examiners and is now in the hands of the printer. Questions and problems for the May and November, 1945, examinations have been selected and tentatively approved by the board. The material is now being prepared for submission to and final approval by the board. Subcommittees of the board have received for review a group of accounting problems for use in future examinations. These problems have been selected under a plan that insures that there will be no undesirable duplication of problems and that the principal subjects upon which problems should be presented will be covered over a reasonable period of years. The board has not overlooked the interest of members of the Association of Certified Public Accountant Examiners and members of the various state boards of accountancy in the task of selecting problems and questions. T. Dwight Williams, a vice president of the Association of Certified Public Accountant Examiners, circularized them requesting that they supply the board of examiners with some problem or question suitable for use in the examinations. The replies to this request have been made available to the board of examiners, and, in so far as feasible, the material submitted will be used in future examinations.

Following the established custom in previous examinations, a small group of certified public accountants sat for the May, 1944, and the November, 1944, examinations in Accounting Practice, using advance printer's proofs. These pre-testing arrangements are designed to check the requirements of time in solving problems and to make certain that the factual data and directions for the various problems are correctly stated.

The board has given some consideration to the method of grading examinations and instructed the chairman to appoint a committee to outline a plan for testing the grading system. This plan, after approval by the members of the board of examiners, will be followed in testing the grading of the papers in the November, 1944, examination. Twelve states have reported that no changes were made in the grades awarded the candidates by the Institute's examiners in the May, 1944, examination. To date only seven papers from three states have been returned for re-grading and in all cases the state boards involved and the examining staff of the Institute have agreed upon final grades.

The board approved November 8, 9 and 10, 1944, as the dates for the November examination and tentatively selected the following dates for future examinations:

Spring 1945	May 16, 17 and 18
Fall 1945	November 7, 8 and 9
Spring 1946	May 15, 16 and 17
Fall 1946	November 6, 7 and 8.

On August 14, 1944, five representatives of the board of examiners met with the members of the New Jersey State Board of Public Accountants for the purpose of informing the New Jersey Board of the general features of the plan of cooperation in the conduct of examinations. The board of examiners is mindful of the advantages of adoption of the standard examination by the six states not presently using the Institute examination and is desirous of cooperating fully with them should they desire to adopt the Institute examination.

#### ELIJAH WATT SELLS AWARDS

The following candidates in the November 1943 and the May 1944 examinations obtained the highest grades, using the weight plan approved by the board of examiners, and were selected to receive the Elijah Watt Sells scholarship prizes:

*November 1943*

John N. Newland, Montana, first prize  
 Robert Gray Murdoch, District of Columbia, second prize  
 Elin Frances Sondergard, Massachusetts, honorable mention  
 Irving Richardson, Illinois, honorable mention  
 Willis A. Leonhardi, Illinois, honorable mention  
 T. A. Waites, Jr., South Carolina, honorable mention.

*May 1944*

William Harmon Simmons, Texas, first prize  
 Thomas Bernard Donahue, Missouri, second prize  
 Theodore Thulstrup, Illinois, honorable mention  
 Maurice D. Atkin, Illinois, honorable mention.

QUALIFICATIONS FOR ADMISSION  
 TO THE INSTITUTE

The board has continued its policy adopted at the meeting of October 31, 1941, of considering service in the armed forces of the United States as not breaking the continuity of public accounting experience for purposes of meeting eligibility requirements for admission to the Institute. Under this policy applicants serving in the armed forces are considered as engaged in the public practice of accountancy provided that they were in practice immediately prior to such service, but the term of service in the armed forces is not considered as public practice in computing the period of practice.

In case of persons serving in the armed forces of the United States, the board recommends to council that the period of service in the armed forces should not be considered for the purpose of applying the automatic feature of advancement to membership.

The board has adopted the policy of accepting for admission applicants receiving CPA certificates under section 4, paragraph (a)2 of the Illinois Accountancy Act of 1943 provided the candidates meet other qualifications for admission. This policy was adopted after a review of the Illinois examinations taken by such applicants.

There has been a trend toward a substantial increase in the proportionate number of associates. At the present time,

approximately 50% of the applicants for admission to the Institute are seeking associateship. The increase is due in part to a growing interest in the Institute on the part of younger certified public accountants on the staffs of public accounting firms, but is also largely due to a desire on the part of certified public accountants in the employ of private corporations to become affiliated with the Institute. Many state CPA laws do not require public accounting experience before the issuance of CPA certificates. The condition created by these laws constitutes an important factor in the increase in applications for associateship.

The by-laws of the Institute provide that an applicant may be recommended for associateship if he has satisfied all other requirements and shall have been in practice on his own account or in the employ of a practicing public accountant for not less than two years, or shall have had experience which in the opinion of the board of examiners is equivalent to two years of public accounting practice, and at the date of application shall be engaged in work related to accounting. The proper determination of equivalent experience to be accepted from applicants in lieu of the two years of experience in public accounting is primarily a matter of judgment and in many instances there are factors which require consideration entirely apart from the accounting experience offered by the applicant. For this reason, the applications of persons offering equivalent experience in lieu of public accounting practice are brought to the attention of the board at a meeting. In its endeavor to construe the by-laws in accordance with what it believes to be their intent, the board has found it necessary during the past year to reject the applications of 29 certified public accountants who had sought admission as associates on the basis of equivalent experience.

Respectfully submitted,

HENRY E. MENDES, *Chairman*  
 ROY ANDREAE  
 ROBERT P. BRIGGS  
 HAROLD R. CAFFYN  
 J. WILLIAM HOPE  
 KENNETH M. MONTGOMERY  
 RAYMOND E. NORTH  
 GEORGE E. PERRIN  
 NORMAN E. WEBSTER

October 11, 1944

### Report of the Committee on Nominations

TO THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on nominations hereby nominates the following for officers, auditors, and members of council of the American Institute of Accountants, to be voted upon at the annual meeting at St. Louis, October 17, 1944.

*For Officers:*

President:

SAMUEL J. BROAD, New York

Vice Presidents:

RODNEY D. WHITE, Washington

EDWARD B. WILCOX, Illinois

Treasurer:

MAURICE E. PELOUBET, New York

*For Auditors:*

F. MERRILL BEATTY, New York

HENRY A. HORNE, New York

*For Members of Council:*

(Three year term):

OSCAR MOSS, California

JAMES I. KELLER, JR., Florida

WILLIAM JACKSON CARTER, Georgia

ROY ANDREAE, Illinois

JACKSON W. SMART, Illinois

EDWARD S. RITTLER, Louisiana

J. HAROLD STEWART, Massachusetts

OSCAR R. MARTIN, Nebraska  
THEODORE KROHN, New Jersey  
KARL K. MORRIS, Ohio  
PAUL W. FITZKEE, Oklahoma  
I. D. WOOD, Oregon  
JOHN N. AITKEN, JR., Pennsylvania  
JOHN H. ZEBLEY, JR., Pennsylvania  
JAMES A. RENNIE, Virginia  
CARL E. DIETZE, Wisconsin

Each of the nominees has expressed his willingness to serve if elected. These nominations have been approved by the committee on nominations. Two of the nominees are members of the committee. These members did not vote for nominees in their respective states, but the vote cast by the Institute members in these states was so largely in favor of these candidates that the committee recommends their election.

Respectfully submitted,

GEORGE S. OLIVE, Indiana, *Chairman*  
CARL E. DIETZE, Wisconsin  
ROY ANDREAE, Illinois  
I. RUSSELL BUSH, Pennsylvania  
HAL CANARY, Tennessee  
E. OBER PRIDE, Massachusetts  
T. DWIGHT WILLIAMS, Oklahoma

August 18, 1944

### Report of the Committee on Professional Ethics

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the May meeting of council the New York members of the committee on professional ethics have held several meetings to discuss questions arising from the special report on the Associated Gas case, in order that the matter might be satisfactorily disposed of in accordance with council action thereon. No meeting of the full committee has been held since the May meeting.

#### Listings in Directories

A publisher of directories, proposing to issue "The American Accountants Directory," has circulated material concerning this proposed publication to accountants throughout the country. Numerous in-

quiries have been received from members and associates with regard to the committee's views on the question of listings in directories, and after considerable study and discussion, the committee has issued the following statement on the subject, which was printed in the September 30th number of *The Certified Public Accountant*, and in the Official Decisions and Releases section of the October issue of *The Journal of Accountancy*:

"The question has been submitted to the American Institute of Accountants committee on professional ethics whether the name, address, and professional qualifications of a member of the Institute may be listed in a directory without violation of the rules of professional conduct.

"It is the opinion of the committee on professional ethics that it would be a viola-

tion of Rule No. 10 of the rules of professional conduct if descriptive information about the professional qualifications of a member or an associate were published with his name and address in a directory, in consideration of any payment, direct or indirect, by such member or associate.

"This opinion is based upon the language of Rule No. 10, which states that 'members or associates shall not advertise their professional attainments or services.' In the opinion of the committee, the publication of descriptive material in conjunction with the listing of the name of a member or an associate in a directory, in consideration of any payment by him, would constitute advertisement of his professional attainments.

"The committee believes that the listing of the name and address of a member in a directory with the designation 'Certified Public Accountant,' firm affiliation, and 'Member, American Institute of Accountants,' where appropriate, but without any further descriptive language, would not be a valid basis for complaint.

"However, the committee has already expressed the opinion (see *The Certified Public Accountant*, March 15, 1944, page 8) that Rule No. 10 prohibits such listings in bold type or in any other form which differentiates them from other names and addresses in the same list."

Subsequent to the release of this ruling, a member of the Institute received a letter from the publishing firm which proposes to produce the new directory, from which the following is an excerpt:

"As many members of the American Institute of Accountants have indicated that they are highly in favor of the American Accountants Directory and wish to be listed in it, they will bring up at the convention in St. Louis the matter of amending Rule 10 so that members of the American Institute of Accountants may ethically be listed in this directory, just as the American Bar Association has made it possible for lawyers to be listed in certain directories they have approved."

### Rules of Professional Conduct

The committee is pleased to report that as a result of its interpretation of Rule No. 10, as amended December 27, 1943, several cities have discontinued display or bold type listings for accountants in the classified section of telephone directories. The committee has had the full cooperation of

the members and the state societies in this connection.

### Analysis of Cases

38-14. This case, arising from a court decision involving alleged conspiracy, has been reported to the council at numerous meetings. The committee, and the technical assistant to the committee, have devoted considerable time and study to the available records in this case. The New York members of the committee have met several times with the members of the Institute concerned in the case, and have found it impossible to reconcile conflicting testimony as to the partnership relationship of the members involved. This has made it impossible to fix responsibility on any member of the Institute. The committee has therefore voted to close the file in the case because of insufficient evidence.

42-2. This case involves a member who was the object of a suit in a civil proceeding, and has been reported at several meetings of the council. Information has recently been made available to the committee in this case, which should enable it to reach an early conclusion.

42-5. The committee has reported at five previous meetings of the council on this case, which involves a member who has been indicted by a federal grand jury. In accordance with its established policy in cases of this kind, the committee is deferring formal action in the matter until the court record may become available.

42-17. This case, reported to the council at several previous meetings, involved allegations by a non-member of the Institute against an accounting firm, of which partners are members of the Institute, to the effect that said accounting firm had certified misleading financial statements. The committee received an explanation from the firm involved, and after a thorough study of the published annual reports of the corporation concerned, the committee has reached the conclusion that the charges are not substantiated by the record, and has therefore closed the file in the matter.

43-3. The attention of the committee was drawn to a civil case in which a firm of accountants, of which a partner is a member of the Institute, was sued for

alleged negligence. The committee has considered an explanation from the member of the Institute involved, and is awaiting answers to further questions before proceeding with its investigation.

44-1. Complaint was made that a member of the Institute had permitted the use of his name in an advertisement of a business college, carried in the public press. Upon an explanation from the member concerned that he had no proprietary interest in the college, and his assurance that he would not permit his name to be used in similar advertisements, the committee has closed the file in the case.

44-2. The committee received a complaint that a member of the Institute had distributed announcements, indicating specialization in a particular field of accounting, to others than clients or personal acquaintances of the member concerned, in violation of Rule No. 7. The committee received assurance from the member that distribution of the announcement complained of had been discontinued, and that there would be no further distribution of similar matter. The committee thereupon considered the matter closed.

44-3. Complaint was made that a pamphlet, bearing the name of a firm of which partners are members of the Institute, containing explanatory tax material, had been received by the client of another member. An explanation has been received from the accountants concerning distribution of the material, a copy of which has been made available to the complainant, and the committee has voted to close the file in the case unless information received from the complainant indicates that the matter should be further pursued.

44-4. A non-member of the Institute has complained that a circular letter, bearing the name of a member of the Institute, has been received by one of his clients. The committee has informed the member of the complaint, indicating that distribution of the circular appears to be a violation of Rule No. 7 and Rule No. 10. The committee has requested the assurance of the member that he will not in the future issue communications of the type complained of to others than his own clients, and is awaiting a reply before final disposition of the matter.

## Summary of Inquiries and Responses

### POSSIBLE PRACTICE OF LAW

- Q. Our firm has been requested by a number of clients to create a fund that would be used for the payment of costs necessary in prosecuting federal and state tax cases, which fund would be established by periodic assessments of members of the group. We would be neither trustee nor custodian of the fund, but our authority would be limited to deciding the merits of each case, the extent to which each should be prosecuted, preparation of the accounting information, and the selection of the attorney. Would such a plan be in violation of the Institute's rules of professional conduct?
- A. The committee is of the opinion that the proposed activities might constitute the unauthorized practice of law; and that, in any event, unless your services were restricted to your own clients, your activities might result in complaints from members that their clients had been approached by another accountant. Therefore, the proposed undertaking is not favored by the committee.

### DESK CALENDARS

- Q. Various accountants in our state have customarily given desk calendars to their own clients at Christmas. Some of these calendars have been rather large and have been displayed in various places, such as banks. Does this constitute a violation of Rule No. 10 as amended?
- A. The rules of professional conduct of the Institute do not deal specifically with distribution of calendars. While wide latitude is permitted members in their communications with clients, there are limits based on a sense of reality and propriety. The committee is of the opinion that the spirit of Rule No. 10 is violated when members advertise otherwise than in the form and under the circumstances set forth in Rule No. 10 as amended.
- Q. We have been mailing out desk calendars bearing our firm name and address. Is this a violation of the rules of professional conduct of the Institute?
- A. The committee is of the opinion that the distribution of desk calendars by a member constitutes a violation of Rule No. 10 of the rules of professional conduct of the Institute.

## PRACTICE AS ENGINEER

- Q. I am considering association with a firm of management engineers, which operates differently from a public accounting firm. Please advise what effect such an association would have on my membership in the American Institute of Accountants, and whether it would be necessary for me to withdraw from the Institute if I decide to join the engineering firm.
- A. Your attention is called to Rule No. 15 of the rules of professional conduct. It is the committee's opinion that if in your new arrangement you cannot, or do not observe the Institute's rules you should resign in order to avoid exposing yourself to the risk of charges of unprofessional conduct.
- Q. If a member of the Institute becomes a principal in an industrial management organization, the other members of which are not members of the Institute, is the concern bound by the rules of professional conduct of the Institute?
- A. A member of the Institute in public accounting practice and simultaneously engaged in another occupation must in both capacities abide by the rules of professional conduct of the American Institute of Accountants.

MAILING NOTICES OF FORMATION  
OF PARTNERSHIP

- Q. Three members of the Institute are contemplating forming a partnership to practice as certified public accountants. One is a member of the staff of a firm of C.P.A's at the present time. Would we be permitted to mail cards announcing the formation of a partnership to (a) clients served entirely by the staff accountant, including signing of reports and fixing fees; (b) clients obtained by the staff accountant?
- A. Under Rule No. 10 as amended members are permitted to announce the formation of a new partnership in the form of a card in a newspaper; also to send similar announcements to friends and acquaintances, including organizations served while employees of other accountants. However, the committee feels it might be in bad taste to refer to former affiliations and it might cause resentment on the part of former employers. The committee wishes to draw your attention to the fact that sending announcements to clients of former employers might be regarded as a form of solicitation in violation of Rule No. 7.

## SURVEY OF PROSPECTIVE CLIENTELE

- Q. I propose to make a survey of business establishments in a certain section of the country to discover, by calling on and interviewing banks and prospective clients, whether there would be sufficient interest and activity to justify the formation of a public accounting firm in that locality. Is this permissible?
- A. Any member of the Institute who would conduct or participate in a survey of this type would become subject to suspension or expulsion for violation of the by-laws and rules of professional conduct. Such activity would constitute "an act discreditable to the profession"; it would involve direct or indirect solicitation; it might constitute advertising of professional attainments or services in a prohibited manner.

## INDEPENDENCE

- Q. A firm of certified public accountants is regularly engaged as accountants and auditors for a client, the report being issued under the firm name but the actual audit and responsibility and preparation of the report being in charge of Partner A. The report does not contain an opinion paragraph. The report is used solely for the information of the client's management and stockholders, the latter consisting of three individuals. Partner B has been a director of the client concern and recently was made assistant general manager at substantially increased compensation so as to enable him to take a much closer interest in the client's affairs and management. In his capacity, Partner B was in effect representing the principal stockholder who was ill and not able to supervise and protect his interest. Can the firm of C.P.A's be deemed independent? Is Rule No. 4 of the rules of professional conduct of the Institute violated?
- A. On the basis of the facts disclosed it is not believed the work to be undertaken by Partner B would be a violation of Rule No. 4. It is the opinion of the committee that the accounting firm would be wise not to continue in the capacity of auditor for the concern, but since the stock is held by only three stockholders, there does not seem to be any impropriety in the firm's accepting appointment as auditors so long as all the stockholders desire the appointment, and the audit reports rendered by the firm clearly disclose the positions held in the concern by Partner B.

## "BOILERPLATE"

- Q. Please furnish a ruling as to the use of imprints by accounting firms on booklets prepared by various tax services, explaining features of new tax provisions, to clients and others who request them.
- A. If a member desires to furnish his clients with material prepared by others, there is no Institute rule which forbids such distribution; but distribution of tax bulletins and similar material should be confined to clients presently served by members. The committee believes the distribution of such material is intended as advertising, however, and would be glad to see the discontinuation of printed material bearing the names of Institute members. Information can be conveyed to clients by letter or memorandum, or by referring them to publications readily available which contain such information.

## RELIANCE ON PART-TIME EMPLOYEE

- Q. One of my clients has a bookkeeper, who is keeping books on a part-time basis for another client under my supervision. I shall prepare quarterly financial statements for the latter client from the records prepared by said part-time employee. Is this permissible?
- A. If your supervision will be sufficient to be equivalent to the type of audit that would normally be required in order to justify your preparation and submission of reports, there is no objection to your rendering the services mentioned. However, if your supervision is nominal and you accept the records as correct without audit, you should not render a report; under such circumstances you could prepare statements completely qualified so as to indicate clearly that they were based on unaudited records and that you do not assume responsibility for their correctness.

## PARTICIPATION IN PROFITS BY PARTY

- Q. We are attorneys, and have been retained to draw new partnership articles for a firm of accountants, the partners of which are members of the Institute, whereby on the death of any partner, his capital, as shown on the books at date of death, shall be repaid within one year from the date of the appointment of a representative of his estate. Also, the deceased partner's estate shall be entitled to share in the profits of the firm for five years. My client questions

whether this would be in violation of Rule No. 3.

- A. There appears to be nothing objectionable from the point of view of the rules of professional conduct of the Institute in the proposed provisions of the partnership articles submitted by you.

## CLIENT IN ILLEGAL BUSINESS

- Q. Please advise whether an accountant auditing the books and preparing the tax returns for illegal businesses would be considered an ethical practitioner?
- A. There is no specific rule of conduct which would apply to this situation, but in the opinion of the committee association with illegal businesses might bring an accountant under disciplinary proceedings under Rule No. 5 of the rules of professional conduct of the Institute; also, such service might lead to situations which would justify charges under Article V of the by-laws of the Institute, which deals with acts "discreditable to the profession."

## BUSINESS INCOMPATIBLE WITH ACCOUNTING PRACTICE

- Q. I desire to enter into a business which will be operated so as not to interfere with my public accounting practice. This business will be to devise and sell through the mails specialized accounting forms for small businesses. The new business will be operated under a trade name and my name will not appear on the letterhead or any other advertising used, and it is my present intention that my name will not be used in any of the company's correspondence. It is not my intention to sell these forms to any of my clients nor to use the sale of these forms to obtain new clients. Would any rule of the Institute prohibit my entering into this enterprise?
- A. It is our belief that an independent accountant should not engage in the activity outlined because there is danger of violating Rule No. 4. It is the opinion of the committee that the proposed activity could not be conducted without violating Rule No. 15, inasmuch as the proposed enterprise would indulge in advertising and solicitation in a manner forbidden by the rules of the Institute. The fact that your name would not appear in any form in connection with the enterprise, and the anonymity with which you propose to cloak the venture, seems to constitute, if anything, a greater offense against the Institute's rules than open violation thereof.

## EMPLOYER-EMPLOYEE RELATIONSHIP

Q. Some years ago I was offered a position on the staff of a public accounting firm. The owner stated he had an agreement with his employees that in the event they left his employ they would refrain from going into public accounting practice in the same city, either as individuals or for another accounting firm. At that time I declined the offer. Later I accepted his offer, but nothing was said regarding the agreement referred to earlier in our discussions. I anticipate going into public practice in the near future, and will give my present employer ample notice. Periodically my employer has called attention to this agreement and our responsibility in the event we seek other employment. In the event my present employer claims he has a verbal contract, do you believe he has any professional grounds to bar me from pursuing my accounting activity in the city in which he practices?

A. The conditions and limitations imposed on you by the contractual relation between you and your employer is a legal question on which we cannot attempt to express an opinion. Whether or not you are under a moral or actual professional obligation depends on all the facts. In view of your employer's periodic announcements of his policy, which you do not say you openly objected to, he might claim that "silence gave consent" and that you tacitly accepted his conditions of employment. In the absence of an agreement or understanding, we know of no ethical precept which should prevent an employee of a public accountant from seeking employment elsewhere or undertaking practice on his own account. In the latter event, the rules of professional conduct of the Institute would prohibit solicitation of clients of other public accountants, including those of your former employer.

## ADVERTISING

Q. Does a card printed in a weekly circular of a service club constitute advertising? This is the usual circular issued by service clubs announcing weekly programs.

A. The insertion of a card in a weekly circular of a service club would constitute a violation of Rule No. 10 as amended.

ASSOCIATION OF ACCOUNTANTS  
NOT PARTNERS

Q. I have recently entered into an agreement with an accountant who is not a

C.P.A. to practice public accounting. All income earned by either one of us is to be treated wholly as his own; all office overhead is to be paid equally, and all office equipment used wholly by one is to be paid for by himself, and equipment used jointly to be paid for jointly. If either of us works with the other on any particular work, the net income is to be divided equally. Our letterhead will read "\_\_\_\_\_, \_\_\_\_\_ and Company," and will bear my name as C.P.A. and the other accountant's as tax counselor. Is this in accord with the Institute's rules of professional conduct? What is the proper form in signing audit and other reports?

A. The suggested letterhead appears to be somewhat misleading. A client or prospective client not informed as to your agreement would be led to believe that you were co-partners, contra to the fact. Clients of the other accountant would be justified in assuming that they had the benefit of the knowledge, training and experience of a C.P.A., whereas in fact this would not be true unless you had been engaged to cooperate in a particular matter. The most important objection is that if reports for clients of the other accountant were signed in the name of the firm, credit grantors and others would have no way of knowing you had not participated in the examination in any way.

## TELEPHONE DIRECTORY LISTING

Q. Is it permissible to have our firm name listed in the telephone directory of a nearby town, in which there are no resident public accountants?

A. If the directory regularly lists accountants and others located in neighboring cities, there would appear to be no objection to the inclusion of your name.

## FILING PARTNERSHIP PAPERS

Q. In forming a partnership between two certified public accountants, has the Institute any requirement with reference to the filing of papers concerning such partnership?

A. No.

Respectfully submitted,

JOSEPH J. KLEIN, *Chairman*  
FREDERICK H. HURDMAN  
HOMER N. SWEET  
EDWIN H. WAGNER  
ROSS T. WARNER

September 28, 1944



## Report of the Committee on Budget and Finance

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on budget and finance presents herewith a report for the fiscal year 1944-1945, covering estimated revenue and expenditures of the American Institute of Accountants and its various departments and subsidiary corporations.

A condensed consolidated budget for 1944-1945, with transactions for 1943-1944, has been distributed to members of council in mimeographed form for their convenience in reviewing proposed appropriations.

The total revenue is estimated at \$295,900, an increase of \$15,787 over actual revenue for last year. An increase in dues of \$13,680 is expected, additional revenue from sales of *The Journal of Accountancy* estimated at \$11,801 will be reduced by an increase in the printing costs of the magazine. A decrease of \$8,445 is expected in miscellaneous income, principally in the sales of books and other publications.

Expenditures to be appropriated total \$309,625, an increase of \$35,420. The principal increases in expenditures are salaries and fees for professional services of \$20,037 (due to the employment of a full-time director of research and a full-time educational director, recommended increases in salaries of the present staff, and allowances for additional clerical assistants); \$3,085 in operating expenses (including \$1,300 for additional office space, which is available to us under the terms of our lease); \$9,954 in the cost of publications.

The budget shows that the general fund will have to meet estimated deficits of \$6,467 in operation of the library and \$2,271 in the Publishing Company.

The estimated expenditures for the year exceed the expected income by \$13,725, and the committee recommends that the council appropriate from the contingency fund, which is now \$66,654, an amount sufficient to meet the actual deficit at the close of the fiscal year.

The committee feels justified in making

this recommendation in the belief that the increased expenditures proposed this year, particularly for salaries of the full-time directors of research and education, will result in increased service to the profession and, in due course, in increased membership. It has been the experience of the Institute that expansion of the scope of service has always been followed by increases in membership dues sufficient to support the new projects. Your committee believes that by next year revenues may be expected to increase sufficiently to provide for all expenditures.

Moreover, the contingency fund has been created by setting aside at the end of each year the excess of revenues over expenditures. It thus represents an accumulation of current revenues not expended. The contingency fund has grown to an amount sufficient to meet any likely emergencies. It seems fitting that a part of this fund should be utilized to strengthen the organization in preparation for greater service after the war.

It should be borne in mind that at present the Institute is waiving dues of 807 members and associates in the armed forces of the United States which would amount to about \$15,000.

The committee also recommends that the council appropriate \$5,000 from the contingency fund to be expended only on authority of the executive committee for extraordinary expenses for which no provision has been made in the budget.

The United States Trust Company has continued to advise the committee on the investment program and several changes were made during the past year, the details of which are included in the report of the executive committee.

The committee requests that the several budgets submitted herewith be adopted.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*  
GEORGE D. BAILEY  
SAMUEL J. BROAD

October 12, 1944

AMERICAN INSTITUTE OF ACCOUNTANTS  
 AMERICAN INSTITUTE PUBLISHING CO., INC.  
 CONSOLIDATED AND SUMMARIZED BUDGET—1944-1945

	Budget 1944-1945
<i>Revenue, Estimated:</i>	
Dues.....	\$167,000
Income from The Journal of Accountancy.....	86,575
Income from sales of books.....	8,000
From investments.....	13,025
Fees from state boards.....	11,000
Application fees.....	1,800
Miscellaneous.....	8,500
Total income.....	<u>\$295,900</u>
<i>Expenditures To Be Appropriated:</i>	
Salaries and fees for professional services:	
Secretary and managing editor.....	\$ 14,000
General Institute administration.....	17,100
Editorial, advertising and promotion.....	15,960
Research staff.....	21,080
Library staff.....	10,380
Educational department staff and board of examiners' fees.....	30,200
Provision for auditors' fee.....	1,000
Accounting, purchasing and office services.....	39,240
	<u>\$148,960</u>
Honoraria.....	\$ 5,000
American Institute Pension Plan.....	3,000
Social security taxes.....	4,090
Legal fees and expenses.....	6,600
Administrative expenses:	
Stationery and printing.....	\$ 3,060
Postage and express.....	13,150
Telephone and telegraph.....	4,215
Rent.....	17,000
Electricity.....	2,300
Insurance and taxes.....	830
Supplies and equipment.....	4,100
Building expenses.....	1,600
	<u>\$ 46,255</u>
Traveling expenses:	
President.....	\$ 1,000
Council.....	3,000
Secretary.....	1,800
Public relations.....	600
Others.....	900
	<u>\$ 7,300</u>
Publications:	
Direct cost of The Journal of Accountancy.....	\$ 46,870
Advertising and promotion.....	1,500
Direct cost of books.....	3,300
Yearbook.....	7,000
Special reports to members.....	10,000
	<u>\$ 68,670</u>
Library books and magazines.....	\$ 3,300
Legislative and newsclipping services.....	625
Board of examiners' expenses.....	3,300
Annual meeting.....	3,000
Council and executive committee expenses.....	3,000
General expenses.....	6,525
Total expenditures.....	<u>\$309,625</u>
Contingency fund.....	\$ 13,725
Excess of expenses over income.....	<u>\$295,900</u>

## GENERAL FUND

	Budget 1944-1945
<i>Revenue, Estimated:</i>	
Dues.....	\$167,000
From investments.....	900
Fees from state boards.....	11,000
Application fees.....	1,800
Miscellaneous.....	7,500
Total income.....	<u>\$188,200</u>
<i>Expenditures To Be Appropriated:</i>	
Salaries and fees for professional services:	
Secretary.....	\$ 7,500
General Institute administration.....	17,100
Research staff.....	21,080
Educational department staff and board of examiners' fees.....	30,200
Provision for auditors' fee.....	1,000
Accounting, purchasing and office services.....	19,240
	<u>\$ 96,120</u>
Honoraria.....	\$ 2,500
American Institute Pension Plan.....	2,000
Social security taxes.....	2,275
Legal fees and expenses.....	4,600
Administrative expenses:	
Stationery and printing.....	\$ 2,500
Postage and express.....	6,500
Telephone and telegraph.....	3,000
Rent.....	6,867
Electricity.....	2,300
Insurance.....	300
Supplies and equipment.....	2,700
Building expenses.....	1,600
	<u>\$ 25,767</u>
Traveling expenses:	
President.....	\$ 1,000
Secretary.....	1,800
Council.....	3,000
Public Relations.....	600
Others.....	900
	<u>\$ 7,300</u>
Publications:	
Special reports to members.....	\$ 10,000
Yearbook.....	7,000
The Journal of Accountancy.....	21,200
	<u>\$ 38,200</u>
Legislative and newsclipping services.....	\$ 625
Board of examiners' expenses.....	3,300
Annual meeting.....	3,000
Council and executive committee expenses.....	3,000
General expenses.....	4,500
Total expenditures.....	<u>\$193,187</u>
<i>Add:</i>	
Estimated deficit of:	
Endowment fund.....	6,467
American Institute Publishing Co., Inc.....	2,271
	<u>\$201,925</u>
Excess of expenditures over income.....	13,725
	<u>\$188,200</u>

## ENDOWMENT FUND

	Budget 1944-1945
<i>Revenue, Estimated:</i>	
From investments.....	\$ 9,000
Contributions for library from the Foundation.....	2,915
Miscellaneous.....	1,000
Total income.....	<u>\$12,915</u>
<i>Expenditures To Be Appropriated:</i>	
Salaries of library staff.....	\$10,380
Social security taxes.....	365
Administrative expenses:	
Stationery and printing.....	\$ 50
Postage and express.....	150
Telephone and telegraph.....	165
Rent.....	4,267
Insurance.....	30
Supplies and equipment.....	200
	<u>\$ 4,862</u>
Library books and magazines.....	\$ 3,300
General expenses.....	475
Total expenditures.....	<u>\$19,382</u>
Estimated excess of expenditures over income to be absorbed by general fund.....	6,467
	<u>\$12,915</u>

## AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

	Budget 1944-1945
<i>Revenue, Estimated:</i>	
From investments.....	\$3,125
Total income.....	<u>\$3,125</u>
<i>Expenditures To Be Appropriated:</i>	
Contributions to endowment fund—library.....	\$2,915
Stationery and printing.....	10
General expenses.....	200
Total expenditures.....	<u>\$3,125</u>

## TO THE DIRECTORS OF THE AMERICAN INSTITUTE PUBLISHING CO., INC.:

GENTLEMEN: The committee on budget and finance of the American Institute of Accountants submits herewith a budget for your corporation for the year ending August 31, 1945:

## AMERICAN INSTITUTE PUBLISHING CO., INC.

	Budget 1944-1945
<i>Revenue, Estimated:</i>	
Income from The Journal of Accountancy for subscriptions earned, advertising, and sales of single copies.....	\$107,775
Income from sales of books.....	8,000
Total income.....	<u>\$115,775</u>
<i>Expenditures To Be Appropriated:</i>	
Salaries and fees for professional services:	
Secretary and managing editor.....	\$ 6,500
Editorial, advertising and circulation.....	15,960
Accounting, purchasing and office services.....	20,000
	<u>\$ 42,460</u>
Honoraria.....	\$ 2,500
American Institute Pension Plan.....	1,000
Social security taxes.....	1,450
Legal fees.....	2,000

	Budget 1944-1945
Administrative expenses:	
Stationery and printing.....	\$ 500
Postage and express.....	6,500
Telephone and telegraph.....	1,050
Rent.....	5,866
Insurance and taxes.....	500
Supplies and equipment.....	1,200
	<u>\$ 15,616</u>
Publications:	
Direct cost of The Journal of Accountancy.....	\$ 46,870
Advertising and promotion.....	1,500
Direct cost of books.....	3,300
	<u>\$ 51,670</u>
General expenses.....	<u>\$ 1,350</u>
Total expenditures.....	<u>\$118,046</u>
Excess of expenditures over income to be absorbed by general fund.....	<u>\$ 2,271</u>
	<u>\$115,775</u>

### Report of the Committee on Accounting Procedure

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the time of its 1944 midyear report, your committee on accounting procedure has been concerned largely with several basic problems in the determination and reporting of corporate income. The uncertainties of the war have increased the difficulties encountered in the preparation of the income statement, while wartime conditions have greatly limited its significance as a measure of either normal or wartime earning power. In view of the widespread use of the final figure of net income and compilations of "earnings per share," in the exercise of financial judgments, your committee has been particularly concerned with the necessity of promoting a more intelligent and exhaustive analysis of income data as a basis for an adequate understanding of the implications of the income statement. With this objective in mind, extensive consideration has been given to the reporting of income and excess profits taxes, to the accounting for war contract termination, and to the determination of compensation under stock option agreements. These problems involve matters of form and arrangement in presentation as well as matters of accounting principle in the strict sense of the term.

#### INCOME AND EXCESS PROFITS TAXES

For a long time your committee has been considering a series of problems arising in connection with income and excess profits taxes in the financial statements. It is manifest that the high rates of taxation have, of necessity, influenced managerial policies in many ways, and that constant attention is directed, particularly in the case of unusual transactions, to the possible tax consequences of various alternative courses of conduct. Unfortunately there are substantial differences between the determination of net income for general purposes and the computation of net income for tax purposes. In a variety of situations, unfortunate inferences may be drawn if income items are included, or deductions taken, in the income tax returns, which do not appear in the income statement, or vice versa. As a result the tax shown due by the return is not fairly related to the net income reported in the income statement. A typical example is the situation where a substantial item, deductible in computing taxable income, is charged to surplus. The tax shown due by the return is not fairly related to the net income shown in the income statement.

There is complete agreement that these distortions should be disclosed but a

serious question arises as to the method of disclosure. On the one hand the position is taken that footnote disclosure is adequate. On the other hand it is argued that footnotes, particularly those which in a sense impeach or "bark at" the item to which they relate, are to be avoided; that proper correlation of the tax with various items in the income statement requires allocations which are not adequately indicated in footnotes; and that the income statement should be prepared so as to reflect on its face a rational relationship between net income and tax provision.

A recent illustration of the problem was provided in connection with an issue of debentures for which a company had filed a registration statement with the SEC. The company had charged the costs of retirement annuities related to past services, less the reduction of income tax resulting therefrom, to earned surplus. It treated the charges for federal income taxes applicable to income as being the amount estimated to be actually payable plus the amount that had been credited to surplus. The results for the year 1943, on various bases, were as follows:

Income reported.....	\$4,689,564
Income if all pension costs had been charged to income account.....	4,416,533
Income if past service pension costs had been charged to surplus and only actual income tax payable had been charged to income.....	5,702,823

There is scarcely room for doubt that the charge of the past pension cost to surplus is justified according to accepted accounting principles. The question is therefore whether, considering all of the circumstances, the net income of the company is most fairly represented by a figure of \$4,416,533, \$4,689,564 or \$5,702,823.

In connection with the single-step form of income statement in which, among other things, no figure of "income before income tax" is given, the suggestion had been made to the Securities and Exchange Commission that such form of statement be employed and that Regulation S-X be modified accordingly. Your committee believes that the use of such alternative forms of presentation is permissible and it has adopted a resolution under which the

Securities and Exchange Commission has been requested to modify Regulation S-X accordingly.

Your committee has drafted a bulletin on the subject matter and the Securities and Exchange Commission has proposed two releases involving the general questions which are now under consideration by your committee. A request has been made for an opportunity to discuss the situation with the members of the Commission.

#### WAR CONTRACT TERMINATION

American business has already faced problems arising out of the termination of government contracts: in the near future it will face these problems on a tremendous scale. A special committee has been appointed, under the chairmanship of George D. Bailey, to consider the accounting problems of contract termination in cooperation with your committee on accounting procedure. There seems to be agreement that generally accepted accounting principles are adequate to deal with these situations and that, in the final analysis, the problem is one of applying existing principles to unusual states of fact. The importance of adequate and reasonable settlements can scarcely be overestimated, and a preliminary memorandum has been issued and widely distributed in which the situation is discussed and in which requests have been made for suggestions.

#### STOCK OPTIONS

Your committee has for some time been concerned about the accounting for stock options. Recent developments in the use of stock option agreements to attract managerial services indicate the necessity of a bulletin. It seems clear that in many cases these agreements are made with the intent that the stock options will represent compensation for services, either wholly or in part. Difficult problems arise in the determination of the time when such compensation should be reflected in the accounts and in the determination of its amount. Through the committee on cooperation with stock exchanges, an inquiry has been received from the New York Stock Exchange as to the Institute's opinion on the accounting for stock options. A preliminary reply has been made to the

Stock Exchange and a subcommittee under the chairmanship of William H. Bell is engaged in formulating a bulletin on the subject which will be a basis for a full reply.

#### OTHER MATTERS

##### *Surplus*

A subcommittee under the chairmanship of Maurice E. Peloubet has been considering a number of problems in connection with accounting for surplus. These problems are important in that they involve an adequate understanding of the basic functions of the financial statements. Current practice in the classification of corporate proprietary capital as between capital stock, capital surplus, and earned surplus is unsatisfactory in many respects. There has been much criticism of these titles as a matter of terminology. In addition, the content of the three accounts has never been adequately defined. As an illustration, the question of redemption premiums paid on the retirement of preferred shares has given rise to much difference of opinion. A comprehensive bulletin on surplus accounting would probably be as far reaching as any which your committee could issue.

##### *Cost and Value*

The significance of the surplus accounts depends to a large extent upon the basis of asset valuation. Accountants are generally persuaded that cost is for the most part the proper basis for recording assets, although many problems of cost determination and allocation remain to be solved. It is recognized, however, that departures may be made therefrom, and the inventory rule of cost or market—whichever is lower—illustrates such a departure. It would seem further that there are situations where, owing to the substantial appreciation or decline in value, cost loses much of its significance. The basic question is whether recognition may be given to current value where there is evidence of a substantial and permanent change in the levels of value. Current value is recognized in legal reorganizations or upon change of ownership; it is suggested that similar recognition should be made possible through the medium of an accounting reorganization. A subcommittee under the

chairmanship of William A. Paton is considering this subject.

##### *Quasi-reorganization*

Through the committee on cooperation with stock exchanges, your committee has received an inquiry from the New York Stock Exchange as to the proper treatment of earned surplus account where a substantial amount of preferred dividend arrears has been eliminated by a modification of the capital structure and the issuance of cash and shares to the preferred stockholders in discharge of their claims. A question is raised as to whether such a transaction should be treated as an accounting reorganization and whether the earned surplus accumulated thereafter should be "dated." It seems to have been widely supposed that an accounting reorganization involves, among other things, a downward revaluation of assets and the elimination of a deficit. The question is therefore whether the term quasi-reorganization should be extended to cover transactions such as those involving the elimination of substantial preferred dividend arrears, and perhaps to cover situations where the accounts are reorganized to recognize substantial amounts of appreciation. A reply to the Stock Exchange inquiry has been authorized by your committee and sent to the Exchange.

##### *Amortization of Intangibles*

In its last report your committee referred to the adoption of a policy by the Securities and Exchange Commission designed to encourage the writing off of intangibles. The problem is a difficult one and a subcommittee, under the chairmanship of Warren W. Nissley, is now engaged in a study of the problem with a view to drafting a bulletin.

##### *Investment Company Accounting*

The Securities and Exchange Commission has proposed basic changes in the accounting for investment companies. These changes have been studied exhaustively by a special advisory committee under the chairmanship of Homer N. Sweet, in cooperation with the National Association of Investment Companies, and a report has been made to your committee of which a copy has been furnished to the SEC. A major issue is whether the invest-

ments of these companies should be stated: (a) at cost with market shown parenthetically, (b) at market with cost shown parenthetically, or (c) at cost or market at the option of the company. In addition, the investment companies recommend a special form of financial statement in lieu of the conventional balance sheet and surplus analysis.

*Committee Procedure and Director of Research*

The committee has been fortunate in having had for three years past the benefit of the services of James L. Dohr, the Institute's director of research, in carrying on its work. Mr. Dohr's unusual background of training and experience as certified public accountant, lawyer and educator, and his well balanced judgment, have been of inestimable value to the committee.

The work of the director of research, which office was initiated six years ago as a part-time undertaking, and primarily for

cooperation with the committee on accounting procedure, has expanded to such an extent (including services to the committee on auditing procedure and other committees) that it has been decided by the executive committee of the Institute that the full-time services of a director of research are now required. Unfortunately, Mr. Dohr's commitments to the law firm of which he is a member, and to Columbia University of whose faculty he is a member, are such that he cannot give our Institute his full time. It is with the greatest regret that we see him terminate his services as director of research, and we wish to record this expression of our appreciation of the valuable services rendered this committee and the Institute by him.

Respectfully submitted,

WALTER A. STAUB, *Chairman*

October 16, 1944

**Report of the Committee on Accounting under State Highway Construction Contracts**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: This committee has limited its activities to a survey of the prequalification requirements of contractors doing work for state highway departments in the forty-eight states and the District of Columbia.

Such a survey was conducted by the committee in June, 1941, as disclosed by its report dated November 26, 1941. Since that date only a few changes have been made in any of the state highway department regulations.

This report is limited to the subject of financial statements as a prequalification requirement of contractors doing state highway work. A summary of the states classified as to such requirements follows:

- (1) Requiring financial statements of certified public accountants..... 20 States
- (2) Prefer certified accountants statements, but will accept company statement or require access to books..... 5 "
- (3) Require company statements on prescribed form. 13 "
- (4) Required to be licensed..... 1 "

(5) Require access to books....	1	"
(6) No prequalification requirements.....	9	"
Total.....	<u>49</u>	

In the following schedules are listed the states as classified above:

- (1) Requiring financial statements of certified public accountants (or approved independent public accountants, marked\*):
  - Arizona—Certified with prescribed affidavit,
  - Arkansas—Prescribed auditor's certificate,
  - California—Certificate with prescribed affidavit if over 50 M.
  - Colorado—Certificate with prescribed affidavit if over 50 M.
  - Idaho—Certificate with prescribed affidavit,
  - Illinois—Prescribed auditor's Certificate,
  - Indiana—Prescribed auditor's Certificate,
  - Iowa—Prescribed auditor's Certificate, if over 10 M,
  - Kansas—Prescribed auditor's certificate if net worth over 5M
  - Kentucky—Prescribed certificate and affidavit,



- Louisiana—Certificate with prescribed affidavit to secure license,  
 Michigan—Prescribed auditor's certificate,  
 Missouri—Prescribed auditor's certificate,  
 Montana—Certificate with prescribed affidavit,  
 \*Nevada—Certificate with prescribed affidavit,  
 New Mexico—Prescribed auditor's certificate,  
 Nebraska—Prescribed auditor's certificate,  
 Oklahoma—No prescribed form,  
 \*Texas—Prescribed auditor's certificate,  
 Wisconsin—Prescribed auditor's certificate if over 15 M.
- (2) Prefer certified accountants statement, but will accept company statement or require access to books:
- Alabama—Auditor's certificate or company statement,  
 Florida—Auditor's certificate or company statement,  
 Georgia—Auditor's certificate or company statement,  
 Ohio—Auditor's certificate or company statement,  
 Wyoming—Auditor's certificate or access to books.
- (3) Require company statement on prescribed form:
- Connecticut—No exception,  
 Delaware—No exception,  
 Maryland—No exception,  
 Minnesota—No exception,  
 New Jersey—No exception,  
 North Dakota—No exception,  
 Oregon—If contract over 10 M,  
 South Carolina—If contract over 10 M,  
 South Dakota—When demanded,  
 Tennessee—No exception,  
 Vermont—No exception,  
 Virginia—No exception,  
 Washington—No exception.
- (4) Required to be licensed:
- North Carolina—Must submit financial statement.
- (5) Require access to books:
- West Virginia—State Road Commissioner to have access to books.
- (6) No prequalification requirements:
- Maine—No statement required when experience satisfactory,  
 New contractors required to submit statements,  
 Massachusetts—None required to bid,  
 Mississippi—None required to bid,  
 New Hampshire—None required to bid,  
 New York—Low bidder required to furnish satisfactory qualification,  
 Pennsylvania—None required to bid,  
 Rhode Island—None required to bid,  
 Utah—Surety letter, statement, etc., submitted at time bid opened.  
 District of Columbia—None required to bid.

Questionnaires were sent to the forty-eight states and to the District of Columbia. Six states did not respond, and the classification given these was taken from the committee's report of November 26, 1941. These states were Delaware, Idaho, Mississippi, Missouri, Oklahoma and West Virginia.

As disclosed herein some of the states waive prequalification statements where the amount of contract does not exceed a certain amount or where the highway commission is given access to contractors books.

The required forms vary in the several states and some do not require a prescribed form.

Variation in the requirements of the different states for prequalification of contractors and in the form of statements and audit certificates prescribed, together with many states not having prequalification requirements, presents an opportunity for this committee to do constructive work. This can be done in conjunction with committees of the various state societies—in cooperation with the state highway departments.

Respectfully submitted,

J. R. NELSON, *Chairman*  
 K. J. CARPENTER  
 ALOYSIUS CONGDON  
 ROBERT N. DENNIS  
 CLAIRE S. DOBSON  
 HENRY S. OWENS  
 HENRY M. THOMSON

October 2, 1944

### Report of the Committee on Auditing Procedure

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Bulletin No. 21 of the committee on "Wartime Government Regulations" was issued in July, 1944, and discussed the responsibility of the independent accountant with relation to possible violations of the many kinds of government regulations now in force.

This was one of the most difficult subjects with which the committee had to deal, principally because of the difficulty in drawing a line between questions of practice and questions of legal responsibility. Similar questions had previously arisen in connection with consideration by the committee of the responsibility of auditors under the Securities Acts and particularly the effect of various methods of dating the accountants' report.

Generally speaking, the committee has taken the position that while it can properly discuss the practical aspects of a situation it should not attempt to give advice on questions which may require judicial determination for their settlement. At times it is difficult to draw a sharp line between questions which involve the application of generally accepted auditing procedure (and thus come within the realm of "trade practice") and what are more specifically legal questions affecting

the accountants' responsibility; but every effort should be made to maintain this distinction so that the committee may avoid expressing opinions on questions regarding which the practitioner really requires the advice of a lawyer.

A number of more or less routine matters and matters not of general interest have been referred to the committee during the period since the midyear report and have been dealt with by the chairman or the research department. These, however, were not considered of sufficient general interest to justify a formal statement by the committee.

Respectfully submitted,

SAMUEL J. BROAD, *Chairman*  
 J. N. AITKEN, JR.  
 FRED J. DUNCOMBE  
 GEORGE P. ELLIS  
 IRA N. FRISBEE  
 P. W. R. GLOVER  
 PAUL GRADY  
 CAROL F. HALL  
 EDWARD A. KRACKE  
 NORMAN J. LENHART  
 JOHN A. LINDQUIST  
 FRANK WILBUR MAIN  
 GEORGE WAGNER

October 2, 1944

### Report of the Committee on By-Laws

TO THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: At its May meeting the council of the Institute expressed itself as favoring compensation of the auditors who conduct the annual audit of the Institute's accounts. The matter was referred to the executive committee. The executive committee has recommended that the by-laws be amended so as to permit the appointment each year of a firm of certified public accountants to conduct an independent audit of the Institute's accounts,

with the understanding that such firm would be compensated for its services.

The committee on by-laws has prepared the following amendments to give effect to this proposal, and recommends their adoption:

Amend Article VII of the by-laws by eliminating Section 4 and changing the number of the present Section 5 to Section 4, and of the present Section 6 to Section 5.

Amend Article VIII, Section 3 by adding the following sentences:

"The council shall, at least three months prior to the annual meeting of the Institute, appoint certified public accountants to audit the accounts of the Institute and its affiliated organizations for the current fiscal year. The report of the auditors shall be submitted to the members of the Institute at the annual meeting and shall be published for the information of the membership."

Amend Article XI, Section 2 by deleting the words "and auditors" from the

first and second sentences, and the words "or auditors" from the fourth sentence.

Amend Article XI, Section 3 by deleting the words "and auditors" therefrom.

Respectfully submitted,

L. C. J. YEAGER, *Chairman*  
ROY F. GODFREY  
ROLAND B. KEAYS  
WALTER D. WALL  
ARTHUR A. WENDER

August 18, 1944

### Report of the Committee on Cooperation with Bankers

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: In April the committee on cooperation with credit men and our committee sent a letter to state society presidents calling their attention to the desirability of joint meetings with credit grantors.

Recently we have considered an article appearing in the August, 1944, issue of the bulletin of the Robert Morris Associates. This article was entitled "Maintaining Files on Accountants." The writer of the article said that many large banks maintained a card record on accountants which

purported to show the bank's experience with accountants. Such a procedure might lead to a "black list" of certified public accountants. After considerable correspondence with members of our committee, we reached the conclusion that no action should be taken. However, the article in question will be published in the November issue of *The Journal of Accountancy*, and our successor committee may wish to consider the article further.

Respectfully submitted,

CLIFTON H. MORRIS, *Chairman*

October 16, 1944

### Report of the Committee on Cooperation with Credit Men

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee on cooperation with credit men in its interim report to the council in May of this year, advised the council that it was continuing to prosecute its efforts to establish closer country-wide coordination between accountants and credit grantors—both commercial and bank. This took the form of a letter to the presidents of state societies in which the Institute offered to contact (with the approval of the societies) local chapters of the Robert Morris Associates and local commercial credit groups; and to supply them with copies of the comprehensive program on cooperation with bank and commercial credit men, prepared by your committee in 1942.

While the responses thus far have not been too encouraging, probably due in large measure to the extraordinary burdens placed on the profession stemming from

war conditions, it will be interesting to watch the progress being made by those societies which have accepted the proposal. Moreover, the experience thus acquired may be helpful in the further development of the committee's work.

Five states responded as follows:

*Michigan*—Requested that no letters be sent to credit grantors in their section.

*Connecticut*—Letters were sent to:

New England Chapter of Robert Morris Associates. The Chapter replied that it was turning the letter over to committee for cooperation with accountants.

New Haven Association of Credit Men. They replied they were turning letter over to chairman of program committee.  
Waterbury Association of Credit Men.  
Bridgeport Association of Credit Men.  
Hartford Association of Credit men. No replies.

*West Virginia*—Letters were sent to:

Wheeling Association of Credit Men. They contacted Mr. Hutzell, president of the West Virginia Society of C.P.A.'s.

Parkersburg-Marietta Association of Credit Men. They turned letter over to program committee for consideration. Tri-State Association of Credit Men. Charleston Association of Credit Men. Central West Virginia Credit and Adjustment Bureau. No replies.

*California*—Letters were sent to:

Los Angeles Association of Credit Men. They replied they were turning letter over to chairman of war and postwar activities committee.

Association of Credit Men of Central and Northern California; Fresno Division of Association of Credit Men of Central and Northern California; Wholesalers Credit Association of Oakland; Sacramento-Stockton Chapter of Credit Mens Association of Central and Northern California; San Diego Association of Credit Men; San Francisco Chapter of Robert Morris Associates; Southern California Chapter of Robert Morris Associates. No replies.

*Illinois*—Letters sent to:

Chicago Chapter, Robert Morris Associates. They replied they were placing the matter on agenda for discussion. National Association of Credit Men (Central Division). They turned letter

over to Chicago Association as they handle only coordination of association work.

Chicago Association of Credit Men; Peoria Association of Credit Men; Springfield Association of Credit Men. No replies.

The credit grantors who replied all expressed interest.

Respectfully submitted,

SIMON LOEB, *Chairman*  
CLINTON W. BENNETT  
MAURICE L. BLANCHARD  
WALTER C. BURER  
JAMES B. CARSON  
ROY C. COMER  
GROVER C. GREWELING  
EDWIN WARREN HART  
HENRY C. HELM  
HARRY E. JUDD  
KARL K. MORRIS  
LOUIS H. PENNEY  
JAMES A. RENNIE  
EDWARD J. STEGMAN  
RICHARD C. STRATFORD

September 28, 1944

### Report of the Committee on Cooperation with Other National Accounting Organizations

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: During the past year, your committee on cooperation with other national accounting organizations has been in direct communication with only one other accounting organization, the Controllers Institute of America. Early in the fiscal year, the chairman of the Controllers Institute committee of cooperation on mutual problems with American Institute of Accountants, Mr. D. J. Hennessy, communicated with the chairman of the American Institute committee, and a luncheon was arranged at which the areas of mutual interest to the two organizations were discussed.

Largely as a result of that preliminary meeting, arrangements were made later in the year for a luncheon meeting of the cooperative committees of the two organizations. This meeting was held at the Bankers Club, New York, May 25, 1944. The following were present:

Representing the Controllers Institute of America:

D. J. Hennessy, chairman, committee on cooperation on mutual problems with American Institute of Accountants  
T. H. Hughes  
H. P. Thornton  
R. P. Kaesshaefer  
Members of same committee  
Arthur Tucker, managing director

Representing the American Institute of Accountants:

Victor H. Stempf, president  
P. W. R. Glover, chairman, committee on cooperation with other national accounting organizations  
Hermon F. Bell  
J. P. Friedman  
Members of same committee  
John L. Carey, secretary

The discussion was general in character and was directed at the question of how the two organizations might best work

together in the public interest, and for their mutual benefit. It was pointed out that committees on federal taxation and war contract termination of the American Institute and the Controllars Institute had conferred and cooperated in the past, and it was the consensus of opinion that other committees dealing with specific problems of mutual interest might do likewise in the future.

The discussion also touched on the problem of financial reporting to government agencies and the accounting rules of regulatory bodies, as matters of interest to both the Controllars Institute and the American Institute.

It was the sense of those present that it would be desirable from time to time for the cooperating committees of the two organizations to meet for general discussion of the sort which had taken place at this meeting, with the possibility that specific suggestions might be developed which in turn could be referred to the officers

or other committees of the respective organizations.

While your committee as such had no formal contact with accounting organizations other than the Controllars Institute during the past year, it is pleased to report that through the Institute's officers, members, and staff, cordial cooperative relations have been maintained, as in the past, with the National Association of Cost Accountants, the American Accounting Association, the Institute of Internal Auditors, and the Controllars Congress of the National Retail Dry Goods Association.

Respectfully submitted,

P. W. R. GLOVER, *Chairman*  
HERMON F. BELL  
CLEM W. COLLINS  
J. P. FRIEDMAN  
ALEXANDER J. LINDSAY  
CHARLES PICHETTI

September 8, 1944

### Report of the Committee on Cooperation with Stock Exchanges

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The principal activity of the committee on cooperation with Stock Exchanges during the year was a luncheon meeting attended by members of the Committee and representatives of the New York Stock Exchange on July 18, 1944. The Stock Exchange was represented by Emil Schram, president, and Phillip L. West and J. E. Gray, of the department of stock list.

At this meeting questions were presented to us relating to the accounting treatment of certain stock options, and as to whether or not earned surplus should be dated after the consummation of a plan of clearing arrears of dividends in a particular case.

The questions were generally discussed with the members of the Exchange present and we advised them that we would refer their inquiries to the committee on accounting procedure. This was done, and the resulting opinions were sent to the Stock Exchange.

Respectfully submitted,

WARREN W. NISSLEY, *Chairman*  
WILLIAM H. BELL  
PERCIVAL F. BRUNDAGE  
WILLIAM R. DONALDSON  
JOHN F. FORBES  
PERCY M. HENDRIE  
WALTER M. LECLEAR  
PRIOR SINCLAIR

October 16, 1944

### Report of the Committee on Cooperatives

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The rapid and wide-spread growth of the cooperative method of

doing business, especially in its relation to the fields of agricultural marketing and purchase of farm supplies, renders it of ever increasing importance that our profes-

sion shall keep pace with this development. It is of supreme importance to the cooperatives in order that they may have the technical advice and counsel, and services which they so greatly need, from those best equipped and able to give it. It is of equal importance to our profession, not only because of the tremendous opportunities for service and substantial potential revenues, but that we may maintain the prestige of our profession in exercising leadership in this field of professional endeavor.

Our responsibility in this matter and the demands upon our professional services have increased during the current year in view of the requirements of the Revenue Act of 1943 under which all so-called exempt farmer cooperatives are now required annually to file with the Commissioner of Internal Revenue an information return. Coupled with this requirement there has been a ruling by the Commissioner that the filing of this information return, revised Form 990, will operate to start the running of the Statute of Limitations with respect to such exempt cooperative associations, providing it is properly filled in and all of the information called for, including supplemental data, is furnished. Leaders in the cooperative field have stressed the importance of strict compliance with the Commissioner's requirements in this matter and have emphasized the importance of the use of proper terminology and forms of statements in order that the true facts with respect to the cooperative's organization and operation may be reflected. This single development has resulted in a substantial increase in the demands for the services of our profession, and as management of cooperatives becomes more familiar with the requirements and comes to realize more fully the consequences of inadequate compliance, it is a certainty that their demands for our professional services will increase. The program of your committee has therefore been designed to be helpful to the profession in meeting its responsibilities in this field.

Two of the primary purposes of the activities of your committee were stated in our last report. We repeat them here:

1. To make recommendations with respect to required audit procedures, subject,

of course, to the confirmation and approval of the appropriate standing committee within the Institute, devoted to matters of audit procedures.

2. To suggest to the profession appropriate terminology and forms of statements, especially adapted to the cooperative form of organization, in order properly to reflect the particular cooperative character of a business enterprise; and to state its operations in such a manner as to conform to and reflect the non-profit principle. It is our intent to do this in cooperation with the Institute's standing committee on terminology.

To these we add a third phase of the proper work of this committee and that is "to utilize every available opportunity to impress upon the management and directors of cooperative associations, the important requirements of proper audit in this highly specialized field, and the absolute necessity of availing themselves of the security which only such an audit and the counsel of competent and informed accountants can give."

\* \* \* \* \*

In furtherance of the purposes of the committee, its performance during the year just closing has embraced these major activities:

1. The dissemination of articles on terminology and forms of statements and the preparation for publication in *The Journal of Accountancy* of an article on that important subject.

2. Numerous platform appearances by committee members to discuss technical problems, among which were:

a. Presentation of a paper and discussion of terminology and forms of statements at a conference of attorneys and accountants held in conjunction with the National Council of Farmer Cooperatives in Chicago, January 3, 1944.

b. Presentation of a paper and discussion of the question of terminology and forms of statements at a conference of senior officers of regional banks for cooperatives held under the auspices of the Central Bank for Cooperatives of Kansas City, February 14, 1944.

c. Discussion of technical problems relating to accounting for cooperatives at

regional meetings of cooperative management and accountants in Salt Lake City, February 18, 1944, and Idaho Falls, Idaho, February 19, 1944.

d. Participation by the New England member of the committee in a joint conference on Cooperative Accounting and Financial Problems, held in Boston in January, 1944, under the sponsorship of the regional Springfield Board for Cooperatives, of the Farm Credit Administration.

3. The handling of a considerable volume of inquiries from members of our profession, especially with reference to the preparation of Form 990 which was required to be filed by all exempt cooperatives under the terms of the Revenue Act of 1943.

4. Collaboration with the tax and law committee of the National Council of Farmer Cooperatives with respect to accounting and tax problems as they currently arise.

5. Collaboration with the National Society of Accountants for Cooperatives in furtherance of their constructive program of education of accountants administering the accounts of cooperatives, which included the attendance of your chairman at their annual meeting for the conduct of a round-table discussion on terminology and forms of statements.

6. Collaboration with the office of the Commissioner of Internal Revenue in the revision of Form 990 to meet the requirements of the Revenue Act of 1943. In this matter the chairman of your committee appeared jointly as representative of the American Institute of Accountants and the tax and law committee of the National Council of Farmer Cooperatives. It was felt that our professional body had a valid interest in the subject matter and should be credited with the constructive work which was then accomplished.

7. Active participation by certain members of the committee in discussions with renegotiation boards to determine what might equitably be determined as income subject to renegotiation in the instances of non-profit cooperative associations of both marketing and purchasing type, engaged in supplying departments

of the United States Government in furtherance of the war effort.

\* \* \* \* \*

With respect to the future program of the committee, we offer the following suggestions for the consideration of whatever new committee may take over during the ensuing year:

1. Organization of regional conferences under joint sponsorship of the American Institute of Accountants, the National Council of Farmer Cooperatives, and the Regional Banks for Cooperatives under the Farm Credit Administration, for the purpose of discussion of the technical problems relating to Cooperative accounting and taxes. In this respect we will say that arrangements are now pending for conducting four of these conferences in the northeast area of the United States; namely, Boston, New York City, Syracuse, and Buffalo. If this initial effort is as successful as we hope, then perhaps conferences in other areas will doubtless prove worthwhile.

2. We recommend a continued liaison with the national organizations of farmer cooperative associations to keep abreast of developments and requirements, which should redound to the mutual advantage of the cooperatives and of our own profession.

3. We recommend continued close cooperation with the various units in the Farm Credit Administration, and collaboration in their research work on cooperative accounting and finance. These people have always indicated a great willingness to cooperate with our profession and accept our leadership in those technical matters on which we are best equipped to counsel. We believe continuance of this relation is important to our profession and will result in the mutual benefit of all parties concerned.

Respectfully submitted,

WALTER L. BRADLEY, *Chairman*  
 JOSEPH C. BRAUER  
 JOHN J. HARRINGTON  
 LEWIS LILLY  
 ROBERT L. PERSINGER  
 OSCAR C. STRAND

September 28, 1944

## Report of the Committee on Federal Taxation

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: On behalf of the committee on federal taxation, I am pleased to submit the following report of its major activities during the past six months.

The work of the two subcommittees of this committee, the subcommittee on current legislation and the subcommittee on research, has been closely coordinated. Individual projects have been received and reviewed by members of the entire committee and agreement on many problems has been achieved.

The committee's work has included three major aspects of the tax picture.

1. Formulation of recommendations for tax revision for the reconversion and immediate postwar period, designed to remove or mitigate the more important tax factors tending to discourage productive activity and employment and to contract consumer demand by diminishing spending potential.
2. Preparation of "Recommendations for Revision of the Internal Revenue Code" by the subcommittee on current legislation, designed to correct errors and inequities in existing law deemed of sufficient importance to outweigh general undesirability of continuous technical changes.
3. Continuance of efforts to achieve the objective of the Institute's resolution urging the creation of a non-partisan tax commission as the most practicable instrument for achieving long-range tax reform and simplification.

Details of numbers two and three above, will be discussed by the respective subcommittee chairmen.

The postwar tax recommendations were assembled after careful study by the members of the committee, and thorough discussion at an all-day meeting of the entire committee on August 18, 1944.

The recommendations of the committee are embodied in its report, which is incorporated herein by reference.

On September 21, in response to an invitation received by the Institute, these recommendations were presented and discussed at an all-day meeting in Washing-

ton, D. C., with representatives of the Joint Committee on Internal Revenue Taxation, the Treasury Department and the Bureau of Internal Revenue. The meeting was attended by Maurice Austin, chairman of the subcommittee on current legislation, who presented the committee's recommendations, Harry E. Howell, chairman of the subcommittee on research, John L. Carey, secretary, and the general chairman of this committee.

Arrangements have been made for public release of the committee's report of its recommendations, and for delivery of copies to appropriate government officials. The text of the report will be published in the November, 1944, issue of *The Journal of Accountancy*.

The Institute also received an invitation from the Select Committee on Small Business of the House of Representatives to submit suggestions designed to help small business. The committee on federal taxation made no separate set of recommendations addressed to the problems of small business, those of its recommendations which bear on this subject being included among its afore-mentioned recommendations for postwar tax revision. Copies of the committee's report thereon, have been sent to the Congressional committee concerned.

It is indeed with gratification that we note the extent to which, in the past year, the federal tax committee has found opportunity to be of service by presenting its views on recommendations on tax legislation to the appropriate authorities. Problems upon which the Institute has acted in this manner during the year have included recommendations for simplification of the individual income tax, postwar tax revision, and important technical amendments. The program in favor of the non-partisan tax commission has received widespread support and recognition. Of the matters which have been given extensive study and consideration but which remain for further action by the next committee, the most important is the long-standing, but increasingly important, matter of conformity of tax accounting procedure with generally accepted accounting principles.



Our program of cooperation with the committee on federal taxation of the state societies has continued. From time to time the presidents of the state societies have been invited to have their tax committees submit recommendations and suggestions for recommendations for tax revision, dealing both with technical and with broader tax policy matters. It is hoped

that the specific program inaugurated this year may serve as a foundation for increasingly extensive cooperation in the future.

Respectfully submitted,

GEORGE P. ELLIS, *General Chairman*

October 16, 1944

### Report of the Subcommittee on Current Legislation

#### TO THE COUNCIL OF THE

#### AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The subcommittee on current legislation of the committee on federal taxation submits the following report of its activities for the year just ended.

#### ACTIVITIES FOR THE FIRST HALF OF THE YEAR

The activities of the subcommittee for the first half of the year are described in its midyear report dated April 14, 1944, to which reference is made for a detailed specification. Said activities included consideration of and/or action upon the following matters:

- (1) Extensions of time for filing 1943 tax returns.
- (2) Extension of time for election of retro-active application of Sections 760 and 761.
- (3) Use of privately printed tax return forms.
- (4) Regulations regarding certificates of non-necessity under Section 124(d) (1) of the Internal Revenue Code.
- (5) Changes in taxable years.
- (6) "Mushroom" tax experts.
- (7) Recommendations re Revenue Act of 1943, with particular reference to section dealing with tax avoidance acquisitions, tax return simplification and computation of excess profits tax postwar refund for fiscal years beginning in 1941 and ending after June 30, 1942.
- (8) Recommendations for simplification of the individual income tax in connection with the Individual Income Tax Act of 1944.

#### ACTIVITIES FOR THE SECOND HALF OF THE YEAR

The activities of the subcommittee as such for the second half of the year were

concerned principally with recommendations for technical revisions in the tax law deemed of sufficient importance to outweigh the general undesirability of continuous technical changes in the tax laws. The work of the members of the subcommittee in connection with the recommendations respecting postwar taxation are described in detail in the report of the committee's general chairman. Further description of the subcommittee's activities follows:

The subcommittee held a meeting on June 23rd to consider its recommendations for technical revisions of the tax laws, as the result of which the subcommittee prepared a report, which was subsequently adopted by the entire committee, embodying 21 specific recommendations for changes in the existing law. Copies of this report will be sent to representatives of the appropriate Congressional committees, the Treasury Department and the Bureau of Internal Revenue. Annexed hereto is a copy of the foreword to said report, and a summary of the recommendations made, which will indicate their scope.

In connection with the preparation of the said recommendations, a report from a special subcommittee appointed to examine into the depreciation adjustment questions raised by the *Virginian Hotel Corporation* case was received and adopted. Further suggestions for technical tax revision have been solicited from the entire membership of the Institute and the state societies, and all suggestions received were given due consideration.

The subcommittee gave consideration to the question of whether the Institute, or its committee on federal taxation, should adopt a policy of intervening in tax litigations where major accounting prin-

ciples, such as the treatment of prepaid income, were involved. A memorandum presenting various possible alternative methods for such intervention was prepared and submitted to the executive committee for an expression on the policy issues involved.

The subcommittee has also been in communication with the Bureau on various technical matters, including the treatment of postwar excess profits tax refund bonds in consolidated return cases, the final ruling on which was in accord with the procedure suggested by one of the committee members, and on the question of Bureau policy with respect to permitting changes in taxable years. With respect to the latter question, the cooperation of the natural business year committee has been enlisted—to the end of assembling case history material as the basis for further discussions with the Bureau.

Your subcommittee has also dealt with extensive correspondence from members of the Institute and others.

In closing this report we wish to express our sincere appreciation for the cooperation and assistance which we have received from the Institute staff.

Respectfully,

MAURICE AUSTIN, *Chairman*  
 EDWIN F. CHINLUND  
 WALTER A. COOPER  
 JAMES A. COUNCILOR  
 THOMAS J. GREEN  
 J. K. LASSER  
 VICTOR MARKWALTER  
 ROBERT MILLER  
 J. A. PHILLIPS  
 PAUL D. SEGHERS

October 16, 1944

## Recommendations for Revision of the Internal Revenue Code

### FOREWORD

The committee on federal taxation of the American Institute of Accountants presents herewith certain recommendations for amendatory federal tax legislation, designed to correct errors and inequities in the existing law, which are deemed of sufficient importance to outweigh the general undesirability of continuous technical changes which make it difficult for taxpayers and practitioners to obtain a working acquaintance with the law. They do not seek to deal with postwar tax problems as such, upon which a separate report has been made, nor with the fundamental need for a recasting and simplification of the entire structure and law. The committee cannot emphasize too strongly that while the measures recommended are needed so long as we continue to operate under the existing tax structure, the basic crying need is for a complete overhauling of our federal tax laws, and their reconstruction and recodification along simplified lines, expressing a permanent and consistent policy of federal taxation, to the

accomplishment of which the American Institute of Accountants has committed itself and for which this committee will continue to work.

The recommendations made herein do not purport to be complete in the sense of dealing with everything requiring correction in the existing law, but represent, rather, the results of the committee's work to date on this phase of the subject. Questions of technical revision are receiving the committee's continuous attention, and from time to time, as and if further recommendations are formulated, they will be embodied in appropriate reports.

### SUMMARY OF RECOMMENDATIONS

#### I. *Recommendations with Respect to Corporation Taxes*

1. All federal taxes on corporate income should be consolidated so as to constitute elements of a single tax.
2. Capital-stock tax should be repealed.
3. If not repealed, the capital-stock tax should be deductible in the year paid or payable.

4. Consolidated returns should be permitted without penalty.
  5. Deductions and credits limited to percentage of income should be uniform for the purpose of the normal tax, surtax, excess-profits tax, and declared-value excess-profits tax.
  6. The tax on long-term capital gains should be limited to 25% where the 80% over-all tax limitation applies.
  7. The provisions preserving the invested capital status of reincorporated deficit corporations should be extended to mergers and consolidations where all of the stock of the continuing corporation is held by the stockholders of the predecessor corporations.
  8. The provisions preserving the invested capital status of reincorporated deficit corporations where the new corporation is *formed* for the purpose should be extended to cases where the successor corporation is a pre-existing corporation utilized for the same purpose.
  9. Recommendations with respect to adjustments for abnormal base-period deductions.
  10. Recommendations with respect to deficiency dividends of personal holding companies.
  11. The deduction of the federal income tax, in computing undistributed subchapter A net income, should be the tax for the taxable year, whether the corporation is on the cash basis or the accrual basis.
- II. *Other Income-tax Recommendations*
12. Expense of preparing individual income-tax returns and prosecuting or defending tax cases and securing advice in tax matters should be allowed as deductions.
  13. Extension of "fiscal year" to include thirteen 4-week periods, etc.
  14. The basis of property should not be reduced by excessive depreciation which resulted in no tax benefit.
  15. Accounting procedure for tax purposes should be conformed to generally accepted principles. In particular, accrual-basis taxpayers should be permitted to defer the reporting of prepaid income in accordance with such principles.
  16. The penalty for substantial underestimating of tax should not apply if the original declaration is at least the amount of the preceding year's tax.
  17. When loss on the sale of property is disallowed by reason of the relation of the parties, the future basis of the property for purpose of determining gain should be the transferor's basis.
  18. Employees trusts—taxability of beneficiary.
- III. *Estate-tax Recommendations*
19. The basis of property, acquired by gift but subjected to estate tax, should be made the same as in the case of property passing by death and not previously made the subject of a gift.
  20. The credit for gift taxes previously paid on property transferred *inter vivos* should be determined by applying to the gift property the highest gift-tax brackets of the decedent rather than the average gift-tax rate prevailing in the year or years of the gift.
  21. Estate tax on remainder to charity subject to power of invasion of principal, etc., should be determined by the ultimate event.

October 1, 1944

### Report of the Subcommittee on Research

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your subcommittee on research is pleased to submit the following report of its activities during the last half of the current year.

NON-PARTISAN TAX COMMISSION

At the meeting of council in May, 1944, your subcommittee reported in some detail, the steps which had been taken to encourage adoption of the Institute's recommendation that Congress create a

non-partisan commission, composed of accountants, lawyers, economists and other experts in taxation, to write a relatively simple revenue law expressing a permanent and consistent policy of federal taxation. We reported that several bills had been introduced in Congress to give effect to this suggestion, but had not been acted upon, and that the Joint Committee on Internal Revenue Taxation was considering a modification of the original suggestion proposed jointly by representatives of the Institute and the American Bar Association; i.e., creation of an advisory council to the Joint Committee which might assist in the development of long-range tax policies.

The Joint Committee held a meeting on June 15, 1944, at which a memorandum submitted by representatives of the Institute and the American Bar Association was considered. No action was taken, but the matter was held in abeyance for later consideration. In the meantime, the Joint Committee decided to make a study of postwar taxation through the Committee staff, the Treasury staff, and a special staff in the Bureau of Internal Revenue; and, as you know, the Institute, along with many other organizations, has been invited to submit suggestions.

In view of the pressure of wartime and postwar legislation, Congressional committees have been prevented from considering the bills which had been introduced to provide for the creation of a non-partisan commission. Congress recessed in the summer, and after sitting for a relatively short period in the fall recessed again until after the election.

It became quite clear that the proposals for a non-partisan commission or an advisory council of experts could make no further headway until after the election.

Continued efforts have been made to utilize appropriate opportunities to keep this proposal before the public. The July issue of *The Journal of Accountancy* contained a forceful editorial entitled "The Incubus of the Tax Law" which received favorable attention in the press. Reprints of this editorial and the newspaper comment as well as other news clippings were sent to government officials who have evidenced interest in the subject.

At the 1944 Wartime Accounting Conferences held by various state societies of

certified public accountants and addressed by officers and committee chairmen of the Institute, George P. Ellis, general chairman of our tax committee spoke on the subject "What is Wrong with our Tax Laws?" and reiterated the need for a non-partisan tax commission. Several state societies in the conference adopted resolutions endorsing the Institute's proposal. It is also of interest to note that the Georgia Society of Certified Public Accountants has informed us that as the result of the work of their committee on state taxation the appointment of a non-partisan state-wide committee for clarification and revision of the state tax laws has been made, and that the Georgia tax committee will take a prominent part in the project.

Although this subcommittee has taken an active part together with the subcommittee on current legislation in formulating recommendations for immediately necessary tax revisions to facilitate postwar adjustment, the committee's postwar tax recommendations, as well as the "Recommendations for Revision of the Internal Revenue Code" prepared by the subcommittee on current legislation, are prefaced with the need for achieving long-range objectives of over-all simplification and coordination. Similarly, the October, 1944, issue of *The Journal of Accountancy* contains a summary of four current postwar tax studies by Rebecca N. Golub, technical assistant to the tax committee, and an editorial on the article, which repeat that, although postwar tax changes are necessary, the basic need remains for a complete overhauling of our federal tax laws and the enactment of a simplified structure expressing a permanent and consistent policy of federal taxation which can best be accomplished through the establishment of a non-partisan tax commission.

In the meantime, conference with members of Congress who are interested in the idea, indicates the desirability of renewal of efforts, when Congress reconvenes in November, to bring about the creation of a non-partisan commission or an advisory council on taxation.

In the belief that the urgent need for long-range simplification and revision of the federal tax system should not be obscured by the present pressure for immediate modification of the tax laws to

facilitate postwar readjustment, your subcommittee on research recommends that the incoming committee on federal taxation continue the drive for creation of a non-partisan commission or advisory council.

#### ACCOUNTING VERSUS TAX CONCEPTS

As reported in our midyear report, Charles Melvoin, a member of this subcommittee, has had under study the subject of divergences between tax accounting procedure and generally accepted accounting principles. His excellent report, which is being presented in his address at this meeting, entitled "Reconciliation of Conflicting Accounting and Tax Concepts of Income," contains an extensive review

of court decisions on the general subject, and will serve as a sound basis for further study and definitive action on this subject by the next committee.

Respectfully,

HARRY E. HOWELL, *Chairman*  
 WILLIAM L. ASHBAUGH  
 MICHAEL D. BACHRACH  
 THOMAS J. DOLAN  
 SCOTT H. DUNHAM  
 HAROLD L. KLAGSTAD  
 RAY G. MCKENNAN  
 CHARLES MELVOIN  
 TROY G. THURSTON  
 FRANK YOUNGMAN

October 16, 1944

### Report of the Committee on Liability of Professional Men in Government Service

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Your committee was appointed by the executive committee last spring to consider a problem which had already been widely discussed in the profession.

Certain federal statutes enacted many years ago seem to impose unnecessarily harsh and rigorous penalties on individuals who serve the government voluntarily or for compensation, full time or part time, while they or their firms then or thereafter engage in professional practice in which claims against the government are involved. The basic purpose of these statutes is sound, and in peacetime little question has been raised with regard to them; but it seemed possible that they would seriously penalize lawyers, accountants and possibly other professional men who, as a patriotic service, had accepted positions in government war agencies to assist the prosecution of the war.

Analysis of the pertinent statutes by counsel of the Institute was studied by your committee, and the question has been discussed with well-informed officials in Washington. At the suggestion of the chairman of your committee, the council of the Institute at its spring meeting adopted the following resolution:

WHEREAS, Many accountants, attorneys, and others are now in the armed forces of our country;

WHEREAS, Many accountants, attor-

neys and others have entered the civilian service of our country, both full time and part time, with and without compensation;

WHEREAS, Certain federal statutes, including sections 109 and 113 of the Criminal Code (USC Title 18, sections 198 and 203) and section 190 of Revised Statute (USC Title 5, section 99), impose harsh and unnecessary burdens and penalties on such officers and employees who serve their country during the existing emergency;

WHEREAS, The said federal statutes tend to discourage trained persons from serving the government and, in a substantial number of instances, have caused persons to resign from their positions to the detriment of the government; therefore be it

RESOLVED, That the council of the American Institute of Accountants, in semi-annual meeting assembled, petitions the Congress of the United States to suspend the said federal statutes during the existing emergency in so far as may be found consistent with the protection and integrity of the public service.

The committee was later informed that the suggestion had been made by the Institute's representatives in the National Conference of Lawyers and Certified Public Accountants that the American Bar Association might take similar action.

Your committee did not send the council's resolution to members of Congress, with the thought that if the Bar Association took similar action, the two bodies should report to Congress simultaneously.

Through the good offices of the lawyer members of the National Conference, the

matter was brought before the resolutions committee of the American Bar Association, at its annual meeting in Chicago, in September. No action was taken, however, because in the opinion of the resolutions committee, while it was entirely sympathetic, a different approach was preferable. It was suggested that specific amendments to specific statutes be suggested, which would accomplish the desired purpose, without removing the ordinary safeguards which Congress had set up.

The matter is at present having further

consideration by counsel for the Institute, and after learning his opinion, your committee may be able to take steps which will result in parallel action by the American Institute of Accountants and the American Bar Association, next winter or spring.

Respectfully submitted,

JOSEPH J. KLEIN, *Chairman*

J. A. LEACH, JR.

J. A. PHILLIPS

October 4, 1944

### Report of the Committee on Membership

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The membership at August 31, 1944, was made up as follows:

Members.....	5,925
Associates.....	2,071
Total.....	<u>7,996</u>

This represents a net increase of 858 for the year with 973 admissions and reinstatements and 115 lost through death and resignation.

Associate Membership comprises nearly 26% of the total compared to 23 $\frac{1}{3}$ % a year ago. One reason for this is that many accountants not in public practice are now seeking associate membership.

The armed forces think well enough of our organization to require the services of 805 of its members or more than 10% and of these men approximately 600 are holding commissions.

The quality of applicants remains high, it being necessary to reject only 29 during the year, most of which were based upon lack of public accounting experience.

Applications pending on August 31, 1944, numbered 389 and the time for processing has been brought to approximately three months which probably cannot be safely reduced.

The committee's program, quite fully reported upon at the spring meeting of council has been put into effect, except for those parts which depended upon the ability of Institute office to engage clerks suited for the purpose. It has been found, however, to be rather fruitless to canvass earlier inquiries which did not then result in applications being filed; therefore that

part of the program has been tabled for the time being.

The following tabulation indicates the growth in membership of the Institute from 1916 to August 31, 1944. The pattern of the last three years is not matched in any other three-year period either in numbers or percentage.

Year	Member- ship	Net Gain or Loss	
		In Numbers	In Per- centage
1916	1,150	1,150	100.0
1917	1,220	70	5.7
1918	1,225	5	0.4
1919	1,252	27	2.2
1920	1,363	111	8.1
1921	1,484	121	8.2
1922	1,606	122	7.5
1923	1,809	203	11.2
1924	1,905	96	5.0
1925	2,008	103	5.1
1926	2,061	53	2.6
1927	2,098	37	1.8
1928	2,158	60	2.8
1929	2,185	27	2.7
1930	2,196	11	0.5
1931	2,182	-14	-0.6
1932	2,183	1	0.05
1933	2,169	-14	-0.6
1934	2,316	157	6.8
1935	2,386	70	2.9
1936	2,649	263	9.9
1937	4,890	2,241	45.8*
1938	5,047	157	3.1
1939	5,184	137	2.6
1940	5,437	118	2.2
1941	5,722	285	5.0
1942	6,453	731	11.3
1943	7,137	684	9.6
1944	7,996	859	10.7

\* Merger of American Society of Certified Public Accountants with American Institute of Accountants, January 1, 1937.

	Number of Certificates Issued	Number of Certified Public Accountants		Total Number of C.P.A.'s	Percent
		Non-members	Members		
Alabama.....	108	40	41	81	50.0
Arizona.....	86	32	30	62	48.3
Arkansas.....	193	42	41	83	50.1
California.....	1,771	828	570	1,398	40.7
Colorado.....	271	100	52	152	34.2
Connecticut.....	364	140	114	254	45.0
Delaware.....	50	21	31	52	60.0
District of Columbia.....	346	243	230	473	48.5
Florida.....	282	132	81	213	38.0
Georgia.....	435	225	93	318	29.2
Idaho.....	60	20	11	31	35.5
Illinois.....	2,218	1,205	683	1,888	36.1
Indiana.....	1,079	210	140	400	47.5
Iowa.....	138	73	49	122	40.1
Kansas.....	175	62	51	113	45.1
Kentucky.....	268	56	90	146	62.0
Louisiana.....	710	177	147	324	45.3
Maine.....	87	38	13	51	25.5
Maryland.....	667	452	109	561	19.4
Massachusetts.....	1,074	489	349	838	41.6
Michigan.....	1,004	473	282	755	37.3
Minnesota.....	364	113	97	210	46.1
Mississippi.....	277	59	38	97	39.9
Missouri.....	672	169	217	386	56.2
Montana.....	114	52	23	75	30.9
Nebraska.....	106	48	31	79	39.2
Nevada.....	37	5	3	8	37.5
New Hampshire.....	409	13	15	28	53.5
New Jersey.....	1,162	759	231	990	23.3
New Mexico.....	45	9	13	22	59.0
New York.....	10,687	7,047	1,798	8,795	19.9
North Carolina.....	616	162	73	235	31.0
North Dakota.....	38	13	7	20	35.0
Ohio.....	1,198	487	336	823	40.8
Oklahoma.....	417	122	110	232	47.4
Oregon.....	311	130	66	196	33.9
Pennsylvania.....	1,725	817	594	1,411	42.0
Rhode Island.....	116	36	41	77	53.2
South Carolina.....	108	40	29	69	42.0
South Dakota.....	18	7	8	15	53.3
Tennessee.....	647	157	110	267	41.2
Texas.....	1,036	374	280	654	42.8
Utah.....	128	35	58	93	62.4
Vermont.....	33	12	5	17	30.0
Virginia.....	330	148	112	260	43.1
Washington.....	435	235	157	392	40.0
West Virginia.....	87	29	36	65	55.0
Wisconsin.....	1,087	473	137	610	22.4
Wyoming.....	72	22	10	32	31.3
	<u>33,661</u>	<u>16,631</u>	<u>7,842</u>	<u>24,473</u>	<u>32.0</u>
United States Possessions.....	132	101	49	150	32.9
Foreign.....		46	22	68	32.3
	<u>33,793</u>	<u>16,778</u>	<u>7,913</u>	<u>24,691</u>	<u>32.0</u>

NOTE.—Members of Institute not certified public accountants—83. Certified public accountants are shown in the state in which they reside, but not necessarily a holder of a certificate issued by that state. Certified public accountants whose mail has been returned are included in the above tabulation at the last known address.

The tabulation on page 168 indicates that 7,913 certified public accountants or 32% out of a possible 24,691 are members of the Institute.

The American Bar Association reports 32,000 members or less than 18% of 179,554 attorneys in the United States (based on 1940 census).

Under date of September 18, 1944, your chairman wrote to the chairmen of the membership committees of the various state societies so that their ideas might be obtained relative to joint effort in strengthening the membership of both the state and national organizations. Many replies

have been received and all of them indicate that such joint effort is desirable in bringing worthy practicing certified public accountants into membership.

This subject and other matters are to be discussed at a meeting of the committee later in the week.

Your committee has had the utmost in cooperation from executives and staff during the entire year.

Respectfully submitted,

CLARENCE L. JOHNSON, *Chairman*

September 1, 1944

### Report of the Committee on Meetings

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The fifty-seventh annual meeting of the American Institute of Accountants is now under way in the City of St. Louis. Registrations are not yet completed but, as we have hotel reservations for 800 to 900 people, we confidently expect a registration of more than 1,000 persons for the technical sessions.

In keeping with the times and following the wishes of the council, entertainment has been kept to the minimum. The annual dinner on Wednesday, October 18, has been the only concession to past customs.

Some of our members may experience some inconvenience in housing and transportation, which your committee sincerely regrets. Every effort was made to prevent such difficulties and early hotel reservations were requested this past May. But, with all of the demand for hotel rooms and the limited space available, it has been impossible to give every one the kind of accommodation he has desired. We trust that those who have been disappointed will bear with us.

Your committee is indebted to the St. Louis Convention and Publicity Bureau,

to the Jefferson Hotel management and staff, to other participating hotels, and to many others for splendid cooperation in making the meeting possible under very trying conditions. We also want to acknowledge the help which we have received from the Institute's secretary and staff without which we would have floundered hopelessly in the dark. Perhaps we have imposed too heavily upon the time of the Institute's staff but, if so, the uncertainty of practically everything made such help an absolute necessity and we are thankful for it.

It has been a pleasure to serve the Institute and we trust that the excellence of the program committee's work, upon which we have received many favorable advance comments, will more than offset any deficiency in our arrangements.

Respectfully submitted,

H. C. HELM, *Chairman*

ALBERT A. ARMSTRONG

A. W. HEBRANK

LOUIS J. KERBER

J. H. O'CONNELL

October 16, 1944

### Report of the Committee on Natural Business Year

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: An excerpt from the minutes of the June 23, 1944, meeting of the Institute's committee on federal taxation follows:

*"Natural Business Year Changes*

The chairman reported that during a recent conversation with Mr. Norman Cann, Deputy Commissioner of Internal Revenue, the latter indicated that the Institute would be invited to discuss the



question of changes of taxable years and suggested that the Institute compile and submit case histories indicating the difficulties which are being experienced at present. Mr. Cann advised that the Bureau was desirous of formulating a policy that was not unduly restrictive but which would protect the Treasury against unwarranted manipulation. It was noted that the Bureau of Internal Revenue at present takes the attitude that the natural business year end should be at, or immediately after, the peak of business, possibly because it feels that in such cases it cannot suffer a loss of revenue. The subcommittee agreed, after careful discussion, that the proper policy should be to allow changes in taxable years freely, where the change is made to a natural business year, or for a substantial business purpose, and where there is no evidence of attempted tax avoidance. It was the feeling of the subcommittee, however, that this policy should be more appropriately urged by the natural business year committee as a proper method of determining accounting period rather than by the committee on federal taxation. It was voted, therefore, to refer this problem to the natural business year committee with the views of the committee on federal taxation and to request them to assemble case material for possible conference with Mr. Norman Cann in the near future. The group voted to cooperate in this project to the fullest extent possible with the natural business year committee. It was agreed that Mr. Norman Cann would be advised accordingly upon receipt of the natural business year committee's disposition of the matter."

The chairman of this committee later discussed the matter of natural business years with Mr. Cann and he states that the

requests for changes to fiscal year closings followed no consistent pattern which would indicate a shift to the natural business year. He seemed to feel that the Bureau should have some approved yardstick to apply to applications for changes in closing dates, and suggested that the Institute assemble data which might serve as the basis for Bureau adoption and publication of official natural fiscal year closing dates for the various subdivisions of industry.

With the help of the Institute's staff, your committee is now preparing data to submit to the Bureau pursuant to the request of Mr. Cann. The following publications are being reviewed:

Publications of Natural Business Year Council:

1. The Natural Business Year—A Means to Efficiency
2. The Natural Business Year—Its Advantages to Business Management
3. The Natural Business Year—Suggested Natural Fiscal Year Closing Dates

Publication of American Institute of Accountants:

1. Public Information Series—The Natural Business Year—Its Advantages to Business Management.

Publications of Dun & Bradstreet, Inc.: Series of bulletins on natural business year.

The committee hopes to complete this work before the annual meeting in October.

Respectfully submitted,

WM. J. CARTER, *Chairman*

September 25, 1944

### Report of the Committee on Publication

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: This report relates exclusively to *The Journal of Accountancy*, *The Certified Public Accountant*, and the sale of books by the American Institute Publishing Company. References to other Institute publications are included in the reports of appropriate committees.

THE JOURNAL OF ACCOUNTANCY

#### *Circulation*

The circulation of *The Journal of Accountancy* is greater than at any previ-

ous time. In August, 1944, sales reached a total of 23,452 copies, compared with 19,869 for the corresponding month of the preceding year—an increase of 18 per cent. About one-third of the persons regularly receiving *The Journal* are members of the American Institute of Accountants. The balance are subscribers who purchase this magazine at a price of \$4 a year. The semi-annual analysis of circulation prepared for the Audit Bureau of Circulations, based on the May, 1944, issue, indicates that 47 per cent of all copies distributed go to accountants, including Institute members; 14 per cent to executives of business corporations, including presidents, vice-

presidents, controllers, and treasurers. Other substantial groups of subscribers are accounting students; members of school and college faculties; federal, state, and municipal officials. A total of 1504 copies or about 7 per cent, according to this analysis, were distributed to Institute members and subscribers in military service. About 350 of these magazines were directed to "unknown destinations," in care of Army Post Offices. Letters received from members and subscribers now with the armed forces in all parts of the world indicate that these magazines are being received and are read with keen interest.

Normal efforts to increase circulation of *The Journal* have necessarily been restricted during the past year to prevent subscription requirements from exceeding the quota of paper authorized by the War Production Board. Communications from accountants and business executives regarding subscriptions tell of their definite need for the informative articles and editorials published. Such interest justifies the plans which have been formulated to acquaint all potential subscribers with the value of this publication as soon as paper restrictions are lifted.

Reprints of articles and editorials published in *The Journal of Accountancy* are distributed extensively among individuals and groups interested in their contents, including members of Congress, government officials, chambers of commerce, and other business groups, accounting organizations, the business press, and editors of daily newspapers. Each issue of *The Journal* is scanned for appropriate material and circulation of the reprints is carefully planned. During the past year, 33 articles and editorials were reprinted for such distribution.

### Advertising

New advertising contracts closed during the fiscal year ended August 31, 1944, together with renewal agreements, brought income from advertising to a new high level. Total advertising revenue amounted to \$22,679 against \$18,160 for the preceding year—an increase of 25 per cent. The business manager is constantly in touch with advertisers, prospective accounts, and advertising agencies in all parts of the country through personal calls and correspondence. On the basis of new business

anticipated, a continued rise in revenue for the fiscal year 1944-45 is predicted. Advertising rates were increased as of July 1, 1944, on new contracts. These increases were amply justified by larger circulation. In accordance with standard advertising practice, contracts which were in effect on July 1, 1944, will continue at the old rates to their expiration. The new rates will apply to all advertising after July 1, 1945.

### THE CERTIFIED PUBLIC ACCOUNTANT

Early in 1944, the policy of publishing *The Certified Public Accountant* on a fixed date, the fifteenth of each month, was abandoned. This change was introduced to make this bulletin a more flexible medium of information, available for reporting developments of vital interest to Institute members as they occur. Between January 1 and September 30, 1944, eight issues have been published. In no instance has an interval of more than six weeks elapsed between consecutive issues.

The *Certified Public Accountant*, like *The Journal of Accountancy*, is subject to wartime restrictions upon the consumption of paper. To comply with these requirements, the title page has been omitted, several sections have been discontinued, and important information is presented in a minimum of space. Further economy in the use of paper has been accomplished by restricting circulation to members and associates of the American Institute. At the beginning of 1944, when this new policy was adopted, *The Certified Public Accountant* was distributed to about 500 non-member subscribers who purchased it at a nominal price of one dollar a year. Subscriptions then in effect have been permitted to continue until their expiration date—in no case later than the end of the present calendar year—but no new subscriptions have been accepted. The pages of *The Certified Public Accountant* are now devoted exclusively to activities of the American Institute of Accountants and information of special interest to its members. Other developments of interest to accountants are reported in *The Journal of Accountancy*.

### SALE OF BOOKS

Publication of books for general distribution, with the exception of *Accountants'*

*Index Supplements and Unofficial Answers to Examination Questions*, was discontinued in 1938. During the fiscal year ended August 31, 1944, a total of 5,080 volumes were sold by the American Institute Publishing Company, producing \$9,918 in revenue.

#### EDITORS AND AUTHORS

The committee desires to express its appreciation to the editors of the various departments appearing regularly in *The Journal of Accountancy* and to those members of the accounting profession and others who have devoted their time and energy to the preparation of articles, communications, or comments, some of which it has been impossible to publish due to lack of space.

#### REVIEW AND OUTLOOK

Reviewing the accomplishment of the war years to date, this committee believes that *The Journal of Accountancy* and other Institute publications have been successful

in providing members of the profession and others, including a substantial number of business executives and government representatives, with prompt and reliable information about current developments relating to accounting and auditing. The committee also believes that the printed record available in Institute publications, which reflects in part the contribution of the accounting profession to the successful prosecution of the war, will become increasingly significant. The period of reconversion to a peacetime economy is expected to bring new responsibilities and new opportunities for Institute publications, at least comparable in scope to those of the current war period.

Respectfully submitted,

FREDERICK H. HURDMAN, *Chairman*  
I. RUSSELL BUSH  
PERCY R. EVERETT  
ALBERT E. HUNTER  
ALAN P. L. PREST

October 11, 1944

### Report of the Committee on Public Utility Accounting

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The past year has been full of activity in the field of public utility accounting. In addition to the matters mentioned in our midyear report there have been proceedings before public utility regulatory bodies in which members of the Institute have given expert testimony.

The more important cases are outlined in this report.

#### *Arkansas:*

The Department of Public Utilities directed the Arkansas Power & Light Company to show cause why the "original cost" of its electric property, less accrued depreciation, should not be established as its electric rate base.

Testimony was given for the utility company by Messrs. George O. May, Thomas H. Sanders, William A. Paton, Henry A. Home, Walter B. Cole, and Joe Bond, and for the regulatory commission by Messrs. Charles W. Smith and Fred Kleinman.

The testimony was as to the accounting

for acquisitions of property, both tangible and intangible; as to the method of determining the amounts, if any, to be included in Account 100.5 and Account 107 of the uniform system of accounts; and as to what dispositions, if any, should be made of the amounts includible in those accounts.

A discussion by William A. Paton of the accounting policies of the Federal Power Commission as developed in the course of the accounting testimony, was printed in the June, 1944, issue of *The Journal of Accountancy*.

The opinion of the Arkansas commission, issued on June 24, 1944, stated that the commission decided, unanimously, against the use of "original cost" as the rate base.

Also, the commission upheld the company's investment in intangible property as a valid asset includible in its corporate accounts and in its rate base.

The commission completely rejected the idea of amortization of amounts includible in Account 100.5.

#### *District of Columbia:*

The Public Utilities Commission of the District of Columbia made an inquiry

into rates, under a "sliding-scale arrangement," of Potomac Electric Power Company. Mr. Charles W. Smith of the Federal Power Commission testified as a witness for the regulatory commission. The witness stated his definitions of, and his opinions about, the straight-line, compound interest, and sinking fund methods of allocating depreciation charges. Also, he stated his views on the retroactive application of a change to the straight-line method of providing for depreciation.

Professor J. C. Bonbright testified also for the regulatory commission with respect to recommendations for specific changes in the sliding-scale arrangement such as: a reduction in the Rate of Return; a change in the rate base; and a change to straight-line depreciation accounting.

#### *New York:*

The New York Public Service Commission proposed substantial revisions of its uniform systems of accounts for electric, gas, water works and steam companies. The utility companies opposed some of the revisions proposed.

Messrs. George O. May and F. Merrill Beatty testified as expert witnesses on behalf of certain of the utility companies. Their testimony dealt mainly with the definition of depreciation accounting; with the comparison of that method of accounting with retirement reserve accounting; and with the retroactive application of straight-line depreciation accounting to companies which previously had followed retirement reserve accounting.

The order of the commission, issued June 7, 1944, amended certain of the proposed revisions referred to in editorials in *The Journal of Accountancy*, issues of July and September, 1944.

#### *Montana:*

The Montana Power Company appeared before the Montana Public Service Commission and the Federal Power Commission, in joint hearings, in the matter of the adjustment of the company's accounts to conform to the uniform system of accounts.

Testimony was given on a wide range of accounting subjects by Messrs. Thomas H. Sanders, William A. Paton, John H. Bickley, and Henry A. Horne. Among those subjects might be listed: accounting

for fixed assets; accounting for intangibles; reasons for the accounting practices with respect to long-lived assets, tangible and intangible; nature of accounting principles; and the relationship of accounting principles to the uniform systems of accounts of the regulatory commissions.

#### *Interstate Commerce Commission:*

On June 15, 1944, the Interstate Commerce Commission issued its first draft of a proposed order modifying the uniform system of accounts for electric railways.

The proposed modification is very extensive and is planned to bring the I.C.C. system of accounts into general harmony with the N.A.R.U.C., F.P.C. and F.C.C. accounts systems. Our committee has not taken any action with respect to the proposed order, in conformity with the war program of the executive committee which restrains our committee from initiating any activities.

#### *Securities and Exchange Commission:*

The Public Utilities Division of the Securities and Exchange Commission wrote to our committee on July 18, 1944, asking for comments on a proposal for a rule relating to accelerated amortization. The proposed rule would call for a recognition in corporate accounts of a tax differential when a company, in its income and excess profits tax returns, makes a deduction for accelerated amortization of emergency facilities but, in its corporate accounts makes its deduction from corporate income in a lesser amount.

The opinions of the members of this committee were assembled and were forwarded to the committee on accounting procedure which, in conformity with Institute policy, will communicate its opinion to the regulatory commission.

#### *Bibliography:*

So much has been written recently on public utility subjects that the research department of the Institute asked the librarian to prepare a bibliography on the subject, covering the period from January 1, 1943, to June 30, 1944. For that period of eighteen months the listing of the material covers four closely spaced type-written pages. The *Accountants' Index*

contains a similar bibliography of material published prior to 1943.

*Miscellaneous Matters:*

During this year, as heretofore, there have been occasions when it has been possible for the chairman of this committee to give some editorial assistance in the preparation of articles for *The Journal of Accountancy*.

The requests for information or advice that have been referred to this committee

by the office of the Institute or by the bureau of information have all been answered.

Respectfully submitted,

HENRY A. HORNE, *Chairman*  
W. M. COURSEN  
CLAUDE W. HUPP  
J. ARTHUR MARVIN  
EDWARD J. MURNANE  
ALDEN C. SMITH

September 27, 1944

**Report of the Committee on Selection of Personnel**

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The interest of the members in the research project to develop better means of identifying young men who are likely to succeed in professional accountancy is indicated by the fact that 101 firms, and, in addition, 210 individual members have subscribed a total of \$56,313.50 for this project.

The committee has engaged Dr. Ben D. Wood as director of the project and Dr. Arthur E. Traxler as assistant director. They are both on a part-time basis without any particular commitment on the part of either one of them as to how much time they will be able to give to the project. Inasmuch as Dr. Wood has been engaged largely in work on behalf of the government in connection with the war effort, he has been able to give very little time to the project thus far. The committee has explained to Dr. Wood and Dr. Traxler that it looks to them, and to the technicians they obtain to help them, for the initiative in developing the project, i.e., the committee will review, observe and suggest. We have also told them that the essential purpose of the project is to attract the finest possible type of personnel to the profession and to devise means for screening out those applicants who are not likely to be successful in it. They, on their part, promise no definite results but hold out hope that some worthwhile measuring sticks may be developed.

No formal arrangement has been made with Dr. Wood as to the amount of money which he could spend for any particular phase of the work. The committee did limit the amount which should

be spent during the calendar year 1944 to \$10,000. The arrangement is that the American Institute of Accountants Foundation reimburses Dr. Wood monthly for the expenses which he incurs. We believe that this working arrangement is entirely satisfactory since the treasurer of the Foundation and the chairman of the committee have an opportunity to review the expenditures monthly. It is believed that this understanding, whereby Dr. Wood is enabled to do those things which he feels are necessary from time to time, is a more satisfactory arrangement than an attempt to put the project in a straight jacket. The real trouble up to now has been that Dr. Wood has been unable to spend as much as he would have liked, because he has been unable to obtain the necessary personnel. He is hopeful that some of these will be released from their war commitments before too long. The total expenditures to September 30, 1944, have been \$2,080.52.

Some definite progress can be reported with respect to one phase of the work, that is, the discovery of a measuring stick to determine whether or not an individual has the same "interests" as those who have been successful in professional accountancy. Since the chairman is planning to discuss this phase of the project at a technical session October 17, 1944, it is not necessary to take the time of council to repeat the details here. The members of the committee feel that the ultimate benefits from these tests are not yet conclusive, but that there is a reasonable chance that they may afford a means to determine whether or not a man of, say, 22 has interests similar to those of qualified

practitioners. These Strong tests do not pretend to indicate whether or not he would be successful in the profession.

There are several tests available to determine the over-all mental ability of a young man. The committee proposes to make some experiments with these but nothing much has been done so far.

A subcommittee of our committee, consisting of Henry E. Mendes, chairman of the Institute's board of examiners, and Edward A. Kracke have been working with Dr. K. W. Vaughn, director of the measurement and guidance project in engineering education, and Royal C. Thurston, a member of the Institute, in an attempt to develop questions designed to test readily an applicant's achievements along professional accountancy lines. This part of the program has just been started, and, as Henry Mendes, says, there are a number of "bugs" in it which have to be worked

out. He is quite hopeful, however, that something may be worked out in this direction.

Both Dr. Wood and Dr. Traxler are attending the Institute meetings and a clinic is being arranged for them tomorrow afternoon between 5 and 6 o'clock. At this meeting Dr. Wood will describe in some detail the various stages of the project and he will also be glad to answer questions from any member.

Respectfully submitted,

WARREN W. NISSLEY, *Chairman*  
SAMUEL J. BROAD  
PERCIVAL F. BRUNDAGE  
EDWARD A. KRACKE  
NORMAN J. LENHART  
A. C. LITTLETON  
HENRY E. MENDES

October 16, 1944

### Report of the Committee on State Legislation

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: During the period since our previous report to council few if any of the state legislatures have been in session. No legislation affecting the profession was noted during the year other than that discussed in our report to council last May.

The committee has continued working on the preparation of model certified public accountant bills both of the restrictive and non-restrictive types. A digest of the suggestions received pertaining to the drafts of the bills submitted to members of council last April has been submitted to legal counsel of the Institute for their consideration in the preparation of revised drafts of the model bills.

Recently a revised draft of the model non-restrictive bill was mailed to members of council, presidents of state societies and secretaries of state boards of accountancy, as well as to all the members of this committee. We had hoped to submit to members of council a revised draft of the model restrictive type of bill prior to this meeting, but found it impossible to do so.

Members of this committee will meet with counsel of the Institute on Oct. 17 with the view of revising the present draft of the bill giving consideration to all of the suggestions for changes in the present draft which have been received by the committee.

An examination of the suggestions relative to the drafts of the model bills leads to the conclusion that a statement is needed concerning the purpose for which the bills are prepared. The committee believes that there are certain basic principles that should be included in any certified public accountants' bill. These include the composition, i.e., the qualification of the members, of the board of accountancy and its powers and duties, the educational and experience requirements of applicants for certificates, ownership of working papers, definition of the terms "practice of public accountancy," "public accountant" and other terms, provision for annual registration, permission for accountants for other states to carry out interstate engagements as well as several other fundamental principles. There are other features of the bills, however, such as the provisions for compensation of the members of the board of accountancy, the number of members on

the board, the method of providing funds for carrying on the work of the board which may of necessity vary according to the requirements of the several states.

In the preparation of the drafts of the model bills an attempt has been made to prepare a bill that will, with perhaps a few minor changes in the administrative features, but without changing the basic principles thereof, meet the need of and act as a guide to state societies of certified public accountants and others interested in accountancy legislation.

Several state societies of certified public accountants are contemplating an early revision of their accountancy laws. At least two state societies are presently engaged in drafting bills of the restrictive type which they propose to have introduced in the legislatures of their states next year. Members of the staff of the Institute have worked with the committees of these state societies in the preparation of their bills.

In view of the profession's present interest in accountancy legislation it is felt that approval of council should be asked of the basic principles embodied in the drafts of the model bills previously presented with the understanding that the exact language of the bills will be changed to conform to opinions of legal counsel of the Institute. The committee believes that it is impossible to write these bills on the floor of council meetings (the writing of a bill which later may be enacted into a law is a highly technical legal task). The council can, however, at this time approve or reject the fundamental principles which have been included in the drafts previously furnished. We request, therefore, that the council approve the fundamental principles which have been included in the drafts of the bills previously furnished and authorize the committee on legislation to circulate to members of council, state society presidents, members of the Association of Certified Public Accountant Examiners, and others interested the revised drafts of the model bills of both types as model bills approved by the committee on legislation. It is believed that a number of state societies are going to consider restrictive legislation next year and that these societies will welcome some official action on the principles embodied in these model bills.

In asking for the approval of the basic

principles of the model bills it is not the thought of the committee that the Institute will change its policy pertaining to restrictive legislation. It will be recalled that in October, 1934, the council adopted a resolution condemning restrictive legislation but that in May, 1940, it rescinded the 1934 resolution and by inference adopted a policy which neither condemns nor approves this type of legislation. This leaves the type of bill to be adopted entirely to the discretion of the members of the profession of each of the several states without the benefit of any official expression from this organization. The opinion of this committee as to whether or not such a condition is desirable has not been obtained.

At the council meeting last May the suggestion was made that the Institute study the citizenship requirements of the certified public accountant laws of the several states with the view of eliminating such requirement as a prerequisite for taking the certified public accountant examination in the United States and foreign countries. The members of the committee who have expressed an opinion on this proposal believe that it would not be advisable to eliminate the citizenship requirement from the several state laws. The thought has been expressed that perhaps some reciprocal agreement might be reached between the several countries, particularly the United States, Canada and South American countries, which will allow qualified accountants of one country to practice in the other countries for a limited period of time without the necessity of becoming a citizen or taking another examination. Our committee feels that the first question which must be answered is:

How far is the profession of this country willing to go in recognizing the foreign accountant's right to carry on his practice here and to what extent is it willing to grant official recognition of the resident non-citizen accountant?

After we have the answer to this question we will then know whether or not it is advisable to attempt to ascertain how far the foreign countries will go and to what extent they will reciprocate. Perhaps the question can be discussed here and the opinion of council obtained now. The question can be presented to the state

societies through the Advisory Council of State Society Presidents and to the state boards of accountancy through the Association of Certified Public Accountant Examiners. Both of these groups will be in session here during the week and, if it is thought advisable, the matter might be

presented to them for an expression of opinion.

Respectfully submitted,

T. DWIGHT WILLIAMS, *Chairman*

October 9, 1944

### Report of the Committee on Technical Sessions

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Supplementing our mid-year report which contained a tentative outline of the program proposed for the 57th annual meeting of the American Institute of Accountants, October 16-19, 1944, we may now inform you as to the names of the various session chairmen.

The Tuesday afternoon session will be conducted by Lincoln G. Kelly; the evening session by Jackson W. Smart. The Wednesday session is an all-day session and the chairman thereof is Donald M. Russell. The Thursday session, both morning and afternoon, will be under the supervision of George P. Ellis.

All of the sessions conform substantially to the program as previously outlined, except the session scheduled for Tuesday evening, the preliminary title of which was stated as "The Problem of Reporting Annual Income." This general topic has

been changed to "Historical vs. Earning Power Concept of the Income Statement." That session as now arranged will be addressed by three principal speakers. The papers they present will then be followed by a panel discussion.

In our midyear report we made no provision for the annual dinner. Since then it has been decided that such an annual dinner is to be included as part of the program and has therefore been scheduled for Wednesday evening.

The printed program for the 57th annual meeting of the American Institute of Accountants has been distributed to the members of the Institute.

Respectfully submitted,

STEPHEN GILMAN, *Chairman*

JOHN J. LANG

MARK E. RICHARDSON

September 18, 1944

### COMMITTEES ON WAR ACTIVITIES

#### Report of the Committee on Accounting and Statistical Reports by Industry

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the report to council at the meeting in May of this year, the committee on accounting and statistical reports by industry has held no meetings, but the committee and individual members thereof have carried on activities as outlined in this report.

The chairman of the committee has continued to serve as a member of the subcommittee of the advisory committee on government questionnaires dealing with the revision of standard procurement forms of the War Department. That committee has held numerous meetings with representatives of the War Department and has submitted reports and recommendations, based on the experience of the

members, endeavoring to make the forms as effective as possible and minimize the burden to industry through their use. We are including the following quotation from one of the reports made by the subcommittee which deals with matters of particular interest to our profession:

"There are very few businesses that make only one product, and even if one product is made there are often variances in quality and size, which may cause substantial variances in manufacturing operations and the resulting costs. In most cases, a business will make two or more products using in part the same and in part different manufacturing processes, or using some processes to a greater or lesser extent than others. A proper determination of costs requires calculation of all these varying factors. An attempt to simplify the



problem by considering merely totals or averages violates sound cost accounting principles and procedures and, instead of giving a basis for sound determination of the cost of the particular article under consideration, may lead to conclusions that are grossly unfair as applied to that particular article.

"In contrast, renegotiation of profits made on all war contracts can, and must, take into consideration the over-all picture. For such purposes, over-all cost figures are necessary, but the same theory and the same procedure cannot fairly be applied to the determination of the proper cost of a particular article.

"An attempt to consider the allocation to the cost of a particular article of indirect factory expenses under title VI or general expenses under title VII appears to imply that an over-all general average is fairly applicable to the cost of a particular article of indirect factory expenses or general expenses on an average over-all basis would be proper cost accounting practice in only a few cases. Allocation of such indirect costs as a percentage of direct labor will usually not give fair total costs of one article in relation to another. Many of the well-managed plants determine costs by applying machine-hour rates for the machines required to produce an article. We are not suggesting that every manufacturing business should use machine-hour rates, but merely point out that proper determination of costs is a difficult and complex problem, and that it cannot be simplified

by use of averages without running grave danger of errors which may indicate an apparent cost that is substantially greater or substantially less than the cost determined on a more accurate basis."

We are pleased to report that the War Department has adopted most of the recommendations made and has determined "cutoff" limits for the several services, below which cost data as to contracts will not be requested. The use of such limits as recommended by the committee should result in very large savings to industry in filling out procurement forms.

At the request of the Institute office, as part of the aid to small business, the Institute committee is now engaged in obtaining lists of all reports and questionnaires to the government that have to be made by small business concerns within a twelve-month period. When sufficient data are obtained, it is hoped that constructive suggestions can be made for elimination or reduction of some of this material.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*  
 GEORGE COCHRANE  
 WARREN W. NISSLEY  
 ALBIN D. STRANDBERG

October 14, 1944

### Report of the Committee on Accounting Manpower

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the meeting of council in May, 1944, the Selective Service System has materially modified its induction policies.

On May 12, 1944, Local Board Memorandum No. 115 was amended to restate Selective Service classification policies in the light of the requirements of the armed forces. The armed forces had indicated that, as the number of men necessary to bring the armed forces to their basic required strength was then relatively small, their greatest immediate need was for physically fit men in the younger age groups capable of the highest degree of efficiency under combat conditions. Under the revised policies, the prospect for registrants ages 18 through 25, generally is service in the armed forces. The

prospect for registrants ages 26 through 29 found to be "necessary to and regularly engaged in" activities in war production or in support of the national health, safety or interest, is that they will remain in civilian life, subject to the needs of the armed forces as such needs may change. The prospect of registrants ages 30 through 37, regardless of their physical condition, and for registrants of any age who are either disqualified for general military service or qualified only for limited service and who are "regularly engaged in" activities in war production or in support of national health, safety or interest, is that they will remain in civilian life for an indefinite period,—again subject to the needs of the armed forces.

The deferment regulations with respect to registrants ages 18 through 25 were tightened so that deferment on occupa-

tional grounds was virtually eliminated. The conditions for deferment of registrants ages 26 through 29 remained about what they had been, while for registrants ages 30 through 37, the requirements for occupational deferment were materially relaxed.

In the last few days National Selective Service Headquarters announced a directive under which local boards were instructed to place men 38 through 44 into Class 4A, which formerly applied only to registrants who had reached their 45th birthdays. The change in classification was explained as being made in order to simplify the classification of registrants who had reached their 38th birthday and are therefore in an age group not acceptable for induction. Likewise the classification of men heretofore found fitted only for limited service, has been canceled and these registrants will be classified in the other deferred classifications.

As a step in the execution of the revised classification policies announced in amended Local Board Memorandum No. 115, National Selective Service Headquarters on June 1, 1944, announced modification of its replacement schedule program. The effect was to limit the application of this program to registrants 26 through 29 years of age, and eventually to eliminate the entire procedure. Replacement schedules in effect at the time of the announcement were to remain effective until their expiration dates, with one six-months renewal period permitted. Establishments which had not theretofore been operating under replacement schedules, were thereafter ineligible to join the program. Local Boards were warned, however, to give full consideration to requests for deferments filed by employers not using replacement schedules or those discontinuing their use. Under the revised policies, it is still advisable for employers in order to continue deferments for men 26 years and over, to file applications for deferment as existing deferments may expire.

Information as to the changes in Selective Service classification policies was given to the membership of the Institute through a pamphlet reprint of Local Board Memorandum No. 115, as amended May 12, 1944, and transmittal Memorandum No. 119.

In the report to council at its May meeting, reference was made to another problem affecting employers and growing out of the war. That was the problem of reemployment under provisions of the Selective Training and Service Act, of discharged veterans of the present war. It is the belief of your committee that questions growing out of these provisions of the Selective Training and Service Act are so predominantly legal, that neither your committee nor the staff of the Institute should attempt to deal with them; but that as questions arise, they should be submitted by members to their legal counsel.

It is suggested that from time to time the membership of the Institute should be advised through the pages of *The Certified Public Accountant* or *The Journal of Accountancy* of important developments in the administration and interpretation of the reemployment provisions of the Selective Training and Service Act. A start in that direction was made, through the publication in the September 30, 1944, issue of *The Certified Public Accountant*, of a summary of Local Board Memorandum No. 190, dealing with assistance for veterans in seeking employment.

In closing it is fitting that acknowledgment should be made of the fine assistance that your committee has at all times had during the past year from John L. Carey, the Institute's secretary, and from the staff of the Institute.

Respectfully submitted,

JOHN A. LINDQUIST, *Chairman*  
WILLIAM R. DONALDSON  
FRANK WILBUR MAIN  
LELAND G. SUTHERLAND

October 16, 1944

### Report of the Committee on Refresher Courses for Returned Service Men

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: At the May 9, 1944, meeting of council, the report of the com-

mittee on postwar problems having to do with a project of refresher courses for veterans discharged from the armed services was referred to the executive

committee with power. Subsequently the executive committee approved the recommendations in such report and in July, 1944, the president appointed the committee on refresher courses to carry out the project.

The council and the executive committee recognized that there is an obligation on the national professional society to make the best possible effort to meet the need for retraining members of the profession who are discharged from the armed services after the war. The prestige of our professional society will be enhanced by such an effort and the goodwill of the men benefited will be earned. Refresher courses should be of great value to the individual veterans in re-orienting them to the requirements of the profession and in reinforcing their self-confidence through familiarizing them with the professional and technical developments since their withdrawal from practice.

The committee is pleased to report that substantial progress has been made. Its organization meeting was held in New York on September 11, 1944. At that time the broad phases of the problem were carefully explored and agreement was reached on certain policies and objectives. Thomas W. Leland, Educational Director, represented the committee in a conference with officials of the Veterans Administration, the chief of whom was H. V. Sterling, Director of Rehabilitation and Education Service. Beyond this a subcommittee has conferred at length with Dean Robert D. Calkins of Columbia University. As a result of these steps the general outline of our program has crystallized along the following lines which, though necessarily tentative, are believed to be a fairly reliable forecast of the project as it will finally materialize:

1. Scope of the course: The committee believes that the text material should be organized at the level of the semi-senior accountant, thus assuming that the student has had a reasonable amount of previous experience and training in accountancy. The material would embrace new professional and technical subjects which have arisen or taken on a new aspect since September 1940 when the federal selective service legislation was adopted. The committee feels that it need not undertake to provide refresher courses in basic accounting and auditing theory, as the established

educational institutions throughout the country will undoubtedly originate and offer such courses.

2. Subject matter and its preparation: The committee has presently adopted a broad topical outline (it hopes to adopt at its next meeting a specific and detailed topical outline) of the subjects to be covered. The general outline is as follows:

#### A—Auditing and reporting

Bulletins on accounting and auditing procedure issued by the American Institute of Accountants; S. E. C. accounting releases; Federal Power Commission rules and regulations; important court decisions affecting practice of accounting; selected articles from *The Journal of Accountancy* and the *Accounting Review*; changes in accounting machine methods.

#### B—Federal and state taxes

Principal changes in the 1940 to 1944 internal revenue acts; excess-profits taxes; carry-back, carry-forward provisions; postwar credits; withholding taxes; social security tax changes; fiscal year ends; important tax decisions; bureau rulings; individual income tax changes; corporate tax changes; special consideration of state taxes where necessary.

#### C—Government relations with business

Renegotiation; termination; wage stabilization; wage and hour control; price control; V, VT and T loans; bankruptcy law changes.

Preparation of the text material will be under the direct supervision of the educational director, Mr. Leland. He will act as editor-in-chief, and outstanding experts in various subjects will be called upon to contribute finished text material or memoranda from which finished material can be prepared. Mr. Leland will be enabled to devote his entire time to the project as he has been relieved of all other responsibilities for the present. The committee will endeavor to have the complete refresher course available for the use of accredited schools by the end of 1944 in anticipation of the flow to civilian status of war veterans which will begin with Allied victory in Europe. The committee has been tendered the generous offer of advice and assistance from Columbia University and from the University of Illinois. Both of these offers have been accepted and we look for such

help to add measurably to the excellence of the course.

3. Manner of offering course: On the advice of recognized educators and representatives of the Veterans Administration the committee proposes to select a school in each principal center throughout the country which will be permitted to give the course sponsored by the Institute. In the beginning there may be ten or twelve approved schools but no effort will be made to restrict the field, and additional accredited schools will be added as needed. Alternative plans, such as (1) a correspondence course offered directly by the Institute or (2) a classroom evening course given by instructors who are public practitioners and using the facilities of established schools, were considered by the committee as less desirable than the plan of having accredited schools adopt the refresher course as part of their curriculums.

It has been estimated that there are approximately 5,000 men in the armed forces who have been drawn from the ranks of the profession. These are the men in whom we have our primary interest. It is recognized that a great many of them may not desire or have a need for the refresher course but a large majority should welcome the opportunity of taking the course. The committee foresees, however, that among those who wish to become students there will be some who for various reasons cannot take a resident course. This may be due to the fact that the veteran does not want to leave his home to go to college, or it may be due to his preference to return at once to his former job in order to improve his economic condition. For these special cases the committee has in mind offering the refresher course on a home-study basis. It is hoped that an accredited school in each region will assume the direction of the home-study program.

4. Federal assistance: Any honorably discharged veteran with ninety days of service (excluding the time assigned to

educational and training programs while in the service) is eligible for a one-year refresher course. The committee does not contemplate that its refresher course will extend for a longer time than several months in any event and most likely for a shorter period than that. There are no age limitations which apply to eligibility for refresher courses, nor is it necessary that the veteran prove that his education was interrupted to establish eligibility. Officials of the Veterans Administration have in effect said that a veteran who is eligible for any educational benefits whatsoever under the Service Men's Aid Act of 1944, known as the GI Bill of Rights, is entitled to one year of education or retraining courses. A tuition cost not to exceed \$500 for each regular school year will be paid to approved schools. The Administration will not pay transportation costs but a maintenance allowance of \$50 per month per person without dependents and \$75 per month otherwise will also be paid. Eligible veterans may receive maintenance allowances in approved refresher courses; moreover an accounting firm may pay a veteran a salary while he is taking a course without disqualifying the veteran for maintenance allowance. This last seems to enhance greatly the appeal of residence courses as it is presumed that most firms will gladly carry a returned veteran on the payroll during his retraining period.

5. Publicity: The committee expects in due time to call upon the staff at headquarters to give suitable publicity to the project. Descriptive information will be sent to all members of the Institute, to state society officers and to colleges offering courses in accounting.

Respectfully submitted,

RAYMOND E. NORTH, *Chairman*  
 RAYMOND G. ANKERS  
 JOSEPH B. BAERNCOFF  
 HIRAM T. SCOVILL  
 MAURICE H. STANS  
 T. DWIGHT WILLIAMS  
 JOHN H. ZEBLEY, JR.

October 11, 1944

### Report of the Committee on Renegotiation of War Contracts

TO THE COUNCIL OF THE  
 AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: Since the meeting of council in May, 1944, the committee on renegotiation of war contracts has held no meetings, but the chairman has endeavored

to keep in touch with progress made in renegotiation of war contracts with particular reference to questions involving the work of our profession. He has also conferred with the secretary and chairmen of other committees on such collateral

matters as renegotiation or repricing of individual contracts, termination of war contracts, and the effect of renegotiation upon business contracts measured by sales or net profits. He also was invited to attend a special conference on war contracts, renegotiation, pricing, and termination sponsored by St. Louis University, School of Commerce and Finance, and delivered there an address entitled "Price Adjustment Prior to Renegotiation and Its Effect Upon Renegotiation."

Since our committee report in May, progress has been made in various legal cases involving renegotiation before the tax court and other federal courts, but the subject is new and complicated and it may be some time before there will be legal decisions which will confirm or correct

renegotiation policies and practices as they have been developed.

In the address in St. Louis already mentioned, the chairman of the committee was requested to comment upon the practical experience of contractors, and, as statements there made deal with broad questions of policy and may be valuable for reference, they are submitted as a supplement to this report.

Respectfully submitted,

C. OLIVER WELLINGTON, *Chairman*  
M. C. CONICK  
A. S. FEDDE  
RAYMOND C. REIK  
PRIOR SINCLAIR

October 14, 1944

### Report of the Committee on Termination of War Contracts

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: At the May meeting of council, your committee reported its testimony before Congressional committees on questions related to proposed legislation governing policy and procedure in termination of war contracts. The committee also reported the work it had done in cooperation with administrative agencies of the government concerned with termination.

#### COOPERATION WITH ADMINISTRATIVE AGENCIES

The final legislation enacted under the title, "Contract Settlement Act of 1944," conformed with the recommendations of your committee in most important respects. The committee believes that this legislation provides a sound and equitable basis and practicable procedure for reimbursement of war contractors whose contracts are canceled for the convenience of the government.

The Act provided for creation of an Office of Contract Settlement, headed by a director, to administer the provisions of the law which involves supervision of the termination procedure of the War Department, the Navy and other contracting agencies.

Soon after the appointment of the new director, the chairman of your committee was invited to assist him in a consulting

capacity in the organization of the new office, the formulation of its basic policies and the preparation of new regulations. The chairman has spent most of the past two months in this work.

The Institute committee has been consulted with respect to the new standard forms for filing termination claims and a revised draft of the termination accounting manual now under consideration, as well as on a number of other points.

It is perhaps a fair generalization to say that the American Institute of Accountants committee on termination of war contracts has had a part in every major decision on termination policy and procedure in which questions of accounting and auditing were involved.

With the permission of the Secretary of the Navy, Captain J. Harold Stewart, a member of the council of the Institute, has been transferred from his former position as technical assistant to the head of the Cost Inspection Service, Bureau of Supplies and Accounts of the Navy, to the post of Assistant to the Director of Contract Settlement, in charge of accounting. Lieut. (j.g.) George N. Farrand, formerly research assistant in the Institute's research department, has been assigned as an assistant to Captain Stewart.

It is believed that the opportunity for constructive service in the field of contract termination, which has been available to the Institute committee and to many

individual members of the profession, both in government service and in public practice, has been of great value to the profession. The certified public accountant and the American Institute of Accountants are more widely known and respected in legislative and administrative circles where termination problems have been dealt with. It has also been a source of gratification to your committee to be able to make a contribution on behalf of the Institute in a field which has been of vital importance to the continued successful prosecution of the war.

#### RESPONSIBILITIES OF THE PROFESSION

From the beginning, your committee has conceived of its responsibility as a dual one—to cooperate with the government administrative agencies and to assist in keeping the profession informed of the technical requirements and the public accountant's responsibility in connection with termination claims.

The committee has kept the Institute's headquarters staff thoroughly informed of all new forms and regulations which were in process so that important new releases could be transmitted to members of the Institute without delay. Through the editorial columns of *The Journal of Accountancy* and articles in the magazine, in the preparation of some of which, members of your committee have had a hand, the profession has been kept currently informed of the development of termination policy and procedure.

Members of the committee assumed responsibility for the organization of the termination session at the annual meeting. The committee has also encouraged the establishment of a series of meetings on accounting aspects of termination, which will be held in November and December, in

various cities throughout the country, under the auspices of state societies, with the cooperation of the Institute's headquarters staff, at which Army and Navy officers will discuss with members of the profession, technical questions which arise in preparation and negotiation of termination claims.

#### CONCLUSION

As the committee has emphasized at every opportunity, it believes that the practicing certified public accountant in the field of termination has an opportunity to render service of the highest value to the country as a whole, to his client and to his profession. In order to take full advantage of this opportunity, however, it is essential that he do two things:

1. Familiarize himself thoroughly with the government rules and regulations under which termination claims must be prepared, in order that the accountant may help his client to prepare ahead of time for the filing of claims with the least possible delay, and also in order to avoid mistakes which will delay government contracting officers in processing the claim and may give rise to doubts as to its validity; and
2. Scrupulously maintain the independent viewpoint which is characteristic of the accounting profession, in an effort to preclude the possibility of even a doubt as to the impartiality of any figures for which the accountant accepts responsibility.

Respectfully submitted,

GEORGE D. BAILEY, *Chairman*  
SAMUEL J. BROAD  
JOHN B. INGLIS  
CHARLES W. JONES  
DONALD M. RUSSELL

October 16, 1944

### National Conference of Lawyers and Certified Public Accountants Report of Co-chairman Representing American Institute of Accountants

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: At the last meeting of the council I reported the formation of the National Conference of Lawyers and Certified Public Accountants.

The National Conference had a meeting

in Chicago on the afternoon of Sunday, September 10th, and the following report of what transpired at that meeting will be of interest to the members of the Institute.

Several subcommittees which had been appointed to inquire into certain phases of the relations between the two professions, submitted progress reports.

The meeting agreed to request the Michigan Bar Association and the Michigan Association of Certified Public Accountants to investigate into the American Tax Association of Kalamazoo, Michigan, which association desires to set up the new professional designation of "Certified Tax Consultant."

A resolution was passed urging the American Bar Association to petition the Congress of the United States to suspend during the existing emergency and for a reasonable period thereafter certain federal statutes which place harsh and unnecessary burdens and penalties on attorneys and accountants now serving in the armed forces. This resolution is similar to the one already passed by the council of the American Institute of Accountants. I understand that the Bar Association has not yet acted on that matter.

The meeting also passed the following important resolution:

WHEREAS, Lawyers and certified public accountants are trained professional men, licensed by the several states, and required to bring to their public service qualifications both as to competency and character; and

WHEREAS, The American Bar Association and the American Institute of Accountants have adopted codes of ethics to assure high standards of practice in both professions;

BE IT RESOLVED, in the opinion of the National Conference of Lawyers and Certified Public Accountants—

1. That the public will be best served if income tax returns are prepared either by certified public accountants or lawyers.
2. That it is in the public interest for lawyers to recommend the employment of certified public accountants and for certified public accountants to recommend the employment of lawyers in any matters where the services of either would be helpful to the client; and that neither profession should assume to perform the functions of the other.
3. That certified public accountants should not prepare legal documents, such as articles of incorporation, corporate by-laws, contracts, deeds, trust agreements, wills, and similar documents. Where in connection with such documents, questions of accountancy are involved or may

result, it is advisable that certified public accountants be consulted.

The events leading up to the passing of the above resolution were as follows:

The week before the meeting in Chicago the American Bar Association issued its advance program for its annual meeting to be held in Chicago from September 11 to 14, 1944; and included in that advance program was the report of the committee on unauthorized practice of the law, of which David F. Maxwell is chairman and Ed M. Otterbourg is a member. Mr. Maxwell is co-chairman of the National Conference of Lawyers and Certified Public Accountants and Mr. Otterbourg is a member of that conference. This report of the committee on unauthorized practice of the law announced the formation of the National Conference with the accountants, set forth the objectives of the National Conference, and expressed the hope that this conference would reach an accord as to where the practice of accountancy ends and the practice of law begins, to the mutual benefit of the professions and the public. In discussing the activities of unauthorized law practitioners in the tax field, the report pointed out the changes which had been made in simplifying income tax returns for the average individual under the Revenue Act of 1944 and stated in the concluding paragraph the following:

"In the opinion of your committee this law eliminates the necessity for any further attempts to distinguish between simple and complicated income tax returns and the preparation of all income tax returns other than the optional ones described above should be construed as the practice of law. Hence, local committees are advised to act promptly to prevent in the future unqualified individuals from holding themselves out to the public as income tax experts and from making a business of preparing income tax returns for others."

Later in the report, in discussing the effect of the Massachusetts case of *Lowell Bar Association et al vs. Birdie T. Loeb et al*, the report concluded its comments as follows:

"The court made it perfectly clear that its decision did not apply to the preparation of complicated tax returns or to the giving of advice upon questions

of law incidental to the preparation of income tax returns. It is to be noted that this rationalization of the subject dovetails with the new Revenue Act of 1944 to which reference has already been made. In the opinion of your committee this case may be used as authority in any suit to prevent an unqualified person from preparing a more complicated tax return under the new revenue law."

When these statements came to our attention, Mr. Carey immediately informed Mr. Maxwell that we were very much disturbed at the action of his committee on unauthorized practice of the law in raising this question in the report of that committee, and that we did not agree with the conclusion reached that the preparation of tax returns was the practice of law. Mr. Maxwell stated he had no intention of inferring in that report that certified public accountants could not prepare tax returns; that his reference was solely to the unqualified accountants. He offered to furnish us with a letter to that effect, or to recommend that the National Conference of Lawyers and Certified Public Accountants pass a resolution to the effect that certified public accountants could prepare tax returns.

At the meeting in Chicago on September 10th we pointed out that it was our understanding that the question of the tax work of the accountants would not come up for discussion at this time. We were therefore surprised that the committee of which Mr. Maxwell was chairman had undertaken to discuss and, so far as we could see, dispose of the question of the preparation of tax returns without our being consulted in the matter. We made it perfectly clear to the meeting that we did not agree with the opinion that the preparation of a tax return was the practice of law; we maintained that as accountants when we prepared a tax return we were practicing accounting and that we had no desire to practice law in any shape or form; nor could we agree that when we as accountants prepared a tax return we were practicing law under a special dispensation.

The lawyers expressed the opinion that we were drawing an unfair inference from the language of the report, which definitely was limited in their view to the unqualified accountants. Apparently there was complete agreement amongst the lawyer mem-

bers of the Conference that certified public accountants were entitled to prepare tax returns. They were quite willing to do what they could to remove any doubt on that score from the minds of those who might read the report of the committee on unauthorized practice of the law. Mr. Maxwell as chairman of that committee offered to appear before the House of Delegates and explain that his report, so far as the paragraphs complained of by us were concerned, referred solely to the unqualified accountants and not to the certified public accountants, and, in further support of that view, to present to the Assembly or House of Delegates a copy of the resolution which is quoted above. We were advised that such a statement would be printed in the official proceedings of the American Bar Association convention and that copies of these proceedings would be incorporated in the yearbook of the Association, which would have the same amount of publicity as the advance program of the Bar Association meeting.

We endeavored to have the language of the resolution changed from "certified public accountants" to "members of the accounting profession," but the lawyer members of the conference declined to make this change, on the ground that it might include the unqualified accountants, to whom we were all opposed, and that no such resolution could be passed in their convention. We endeavored to have this wording changed to include public accountants, particularly in states which have regulatory laws under which such accountants are licensed to practice accounting, but the lawyers declined this suggestion also, on the ground that this was a conference of lawyers and certified public accountants and that we were not authorized to act for any one but certified public accountants.

After careful consideration, we accepted the proposed action as evidence that the Bar Association representatives on the Conference sincerely desired to remove any misunderstandings which might result from the report of their committee. We are informed that Mr. Maxwell appeared before the House of Delegates and made the necessary explanation and presented the resolution quoted above, which was duly accepted. The explanation by Mr. Maxwell follows:



"It has always been customary for the unauthorized practice of law committee to supplement its report by advising the House of any developments occurring during the convention. The House will be pleased to hear that the National Conference group of accountants and lawyers, which you authorized at the mid-winter meeting, held its first business meeting on Sunday of this week.

"The meeting was most successful and a satisfactory basis was established for the future cooperation of the two groups in the public interest. Important resolutions were adopted which I have been instructed by the Conference to report to the House. I will therefore read the resolutions.

"With these resolutions as a basis, the Conference looks forward hopefully to collaborating together for the benefit of the public. In this connection your attention is directed to the report of your committee which is printed on page 72 of the advance program, where recommendation is made to local and state committees to take vigorous and prompt measures to prevent pseudo tax experts and other unqualified persons from engaging in the business of preparing income tax returns.

"This recommendation is not pointed at certified public accountants. On the contrary, your committee recognizes certified public accountants as professional men qualified by education and training to prepare income tax returns. The report rather is directed against the thousands of unqualified persons who have been engaging in this practice without any educational background or experience for their personal profit as a business, and whose activities are unquestionably against the public interest."

The duties of the committee on cooperation with bar association have been taken over by the representatives of the Institute on the National Conference of Lawyers and Certified Public Accountants. Accordingly, it is recommended that the committee on cooperation with bar association be discontinued and that representatives of the Institute on the National Conference of Lawyers and Certified Public Accountants be reappointed.

Respectfully submitted,

WILLIAM CHARLES, *Co-Chairman*

October 14, 1944

### **Annual Awards—American Institute of Accountants**

PRESENTATION ADDRESS BY MAURICE E. PELOUBET

Swinburne, a great constructive critic as well as a poet, once said, "I have never been able to see what should attract men to the profession of criticism but the noble pleasure of praising." That, I think, describes the work of the committee on awards.

For the first time in its history the Institute has authorized a committee to decide on the best work done in several fields of accountancy. The awards have not been limited to members of the Institute nor to its publications.

This first committee has chosen one publication not by the Institute, but the three men to whom the awards have been given are Institute members. It is quite possible, however, that these awards may, in the future, be the means of recognizing services to the profession rendered by men working in government, business or education.

While the committee has received a few suggestions from members it is hoped that

more of these will be sent to the next committee.

While the work of the committee has been pleasant, it has been difficult at the same time. The problem was not to select something good out of a mass of mediocrity but rather to choose the best out of a great deal that was very good. The committee was well distributed geographically; two from the middle West and one from the East. The academic as well as the professional field was represented and the members of the committee were well acquainted with the members of the profession and with accounting literature. Even so, the task was not easy.

The selection of an outstanding book on an accounting subject was the simplest award to make, largely because the field was narrower and the character and purpose of a book can be easily determined.

When we came to the selection of the best article on an accounting subject published during the year, we were con-

fronted by a large volume of material appearing in a number of mediums. In addition to the researches of the individual committee members, we asked the librarian of the Institute to prepare a comprehensive list of representative articles which had come to her notice during the year to be sure that nothing which deserved consideration would be missed.

To decide on the third award the committee agreed at the outset that service of what might be termed a regular and intraprofessional nature would not be considered, as, if it were, the award would be almost sure to go to the president of one of the national accounting bodies or possibly to the president of a prominent and active state society. There is no doubt that these are the men whose services are most valuable to the profession as such, but the committee decided that the purpose of the award was more to recognize outstanding service of a public nature which benefited the public as a whole as well as the profession.

While the decisions of the committee have been unanimous we do not for a moment imagine that everyone will approve every award. We have tried to approach our task in an objective manner and we have tried to consider the interests of the Institute and the profession as a whole in making these awards. I am sure each member of the committee is glad that he has served on it and is, perhaps, even happier about the fact that he will probably never have to serve again.

In selecting an outstanding and valuable book on an accounting subject, the committee considered not only the value of the book to the accounting profession itself in a somewhat narrow, technical sense, but also the value of the book as an explanation to the business man, the lawyer and the economist of what accounting really is, of its basic philosophy, what may be expected of it now, what its probable future is and what its limits are. The book selected is the ripe and mellow distillation of the experience of a long and useful life devoted to the practice of the profession. In later years, to the great benefit of the profession, the author has devoted himself to research and study, the results of which have been freely given to the profession at large. The committee has chosen *Financial Accounting*, by George Oliver May, as an

outstanding recent book on an accounting subject.

The article chosen by the committee is of a somewhat different nature. It is the sharp and pungent expression of a keen and active mind. It expresses clearly and vigorously views which all must respect and with which most accountants will agree, but it is essentially an expression of personal views. The committee not only saw no objection to making an award for such an article, but, on the other hand, felt that the straight-forward expression of well considered personal views on controversial questions is not only the most interesting sort of professional literature to read but also the most likely to provoke discussion of important questions and to lead to their ultimate solution. The way to settle controversial questions is by controversy and the committee hopes, and has no reason to doubt, that the important accounting publications of the country will wish to extend the hospitality of their pages to both parties to any controversy which is conducted with reasonable fairness and decency. The committee have chosen an article appearing in the June 1944 issue of *The Journal of Accountancy* entitled "Accounting Policies of the Federal Power Commission," by William A. Paton, as the best article of the year on an accounting subject.

When we came to the question of choosing the accountant who had rendered the greatest service to the profession, our thoughts naturally turned to those members of the profession who have given up comfortable and lucrative practices to serve their country, either as civilians or in uniform, in positions where their professional qualifications and knowledge are essential. We all know that there are numbers of such men, many of them our own members, in the service. It is a difficult task to single out one of the large number of these capable, self-sacrificing and valuable men. The committee was not guided in its choice by these considerations alone as any choice or comparison on this basis would have been most difficult to make. The committee did, however, try to decide on the services rendered by an accountant which probably had the most beneficial and far-reaching effect on business and on the public practice of accountancy.

You are all familiar with the Baruch-Hancock report on war and postwar adjustment policies. This is a sound, inspiring and clearly written summary of how we should terminate and reconvert and do all the other difficult things which must be done as the war nears its close. It is a most important statement of principles and program and will affect, in one way or another, every member of an industry which has war contracts and, to some extent, all other business as well.

Captain J. Harold Steward, SC, USNR, who was executive assistant to the director of the cost inspection service of the Navy Department from February 3, 1942, to September 1, 1944, had a large share in preparing the sections of this report dealing with costs and financial matters and as such his work will affect to a greater or less degree almost every practicing public accountant in the country. He later acted as chairman of the accounting committee

operating under the joint contract termination board. The profession may be thankful that a man of Captain Stewart's acquaintance with professional problems and sound judgment was in a position to help to make the cost and financial sections of the report comprehensible and workable and to take part in their administration. At present Captain Stewart is working directly under Robert H. Hinckley, director of contract settlements, as his assistant in charge of accounting matters. Here, again, his work will affect almost every accountant in public practice and the profession may have the comfort of knowing that these difficult and important questions are in good hands. For these services, valuable alike to the public and the profession, the committee presents this award to Captain J. Harold Steward.

[Members of the committee on awards, of which Mr. Peloubet was chairman, were Hiram T. Scovill and Edward B. Wilcox]

## AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION

### Report of the Board of Trustees

TO THE AMERICAN INSTITUTE OF  
ACCOUNTANTS FOUNDATION:

GENTLEMEN: Your board of trustees has held three meetings since the annual meeting in October, 1943.

Income from the Foundation, amounting to \$3,012, derived from interest on the capital fund, has been contributed toward the support of the Institute's library as in the past, with the exception of \$204, which has been paid in fees to the securities custodian.

The changes in the securities of the Foundation during the past fiscal year are shown below.

During the year the board of trustees authorized the treasurer of the Foundation to accept voluntary contributions from members of the American Institute of

Accountants for a research project to be conducted by the American Institute of Accountants Foundation to develop aptitude tests for professional accountants. Contributions to this special research project, amounting to \$43,743, have been received, and an additional amount of \$10,725 has been pledged. Expenses of the special research project for the fiscal year amounted to \$1,586.

\$25,000 contributed to this special fund has been invested in United States Treasury bonds.

Respectfully submitted for the board of trustees,

VICTOR H. STEMPEL, *President*

October 16, 1944

#### Purchases

\$5,000 Canadian Pacific debenture, 4%, perpetual, @ 95¼.....	\$ 4,775.00
50 shares United States Steel Corp., 7%, cum. preferred, @ 127¼.....	6,380.00
	<u>\$11,155.00</u>

#### Sales

\$1,000 New York City, 3%, 1967, @ 112¾.....	\$ 1,121.25
1,000 New York City, 3%, 1979, @ 110.....	1,097.50
5,000 Baltimore & Ohio Railroad Co. secured notes, 4%, 1944.....	4,985.00
3,000 New York State Electric & Gas Co., 3¾%, 1964, @ 109½.....	3,264.68
	<u>\$10,468.43</u>

## AMERICAN INSTITUTE BENEVOLENT FUND, INC.

## Report of the Board of Trustees

TO THE AMERICAN INSTITUTE  
BENEVOLENT FUND, INC.:

GENTLEMEN: During the fiscal year ended August 31, 1944, the American Institute Benevolent Fund, Inc., received in the form of contributions, income from investments, and interest on savings bank deposits, \$8,146. During the year the Fund extended assistance to members of the Institute in the amount of \$2,650, and expended \$73 for stationery, printing, postage, and general expenses.

Contributions to the fund were \$7,840, an increase of \$1,854 over the previous year. The principal fund August 31, 1944, was \$18,106.

The statement of assets of the Fund as of August 31, 1944, and August 31, 1943, and an analysis of the increases and decreases of the principal fund during the two fiscal years are submitted as a supplement to this report.

As in recent years, a special letter was October 9, 1944

sent to all members of the Institute with the bills for membership dues September 1, 1944. Up to October 9, 1944, 885 members and associates had responded, with contributions totaling \$8,593.84 in comparison with 713 members and associates who contributed \$6,389.00 in the same period last year.

Your board of trustees is pleased to be able to report that within the last few years an increasing number of members have participated in this activity of the Institute.

Respectfully submitted,

JOHN B. NIVEN, *President*  
SAMUEL J. BROAD, *Treasurer*  
CHARLES B. COUCHMAN  
JOHN F. FORBES  
FREDERICK H. HURDMAN  
ROBERT H. MONTGOMERY  
C. OLIVER WELLINGTON

## AMERICAN INSTITUTE BENEVOLENT FUND, INC.

## BALANCE SHEET

	August 31	
	1944	1943
<i>Assets</i>		
Cash.....	\$ 2,919	\$ 4,119
Investments (market value August 31, 1944—\$15,180—August 31, 1943—\$8,157).....	15,187	7,970
Total assets.....	\$18,106	\$12,089
<i>Liabilities</i> .....	—	—
Principal.....	\$18,106	\$12,089
<i>Statement of Principal Transactions for year ended August 31, 1944</i>		
Balance, September 1, 1943.....	\$12,089	
Add:		
Excess of income over expenses.....	5,623	
Profit on sales of securities.....	394	
Balance August 31, 1944.....	\$18,106	

*Statement of Income and Expenses and Distribution*

	Year ended Aug. 31	
	1944	1943
<i>Income:</i>		
Contributions (including donations for specific purposes).....	\$ 7,840	\$ 5,986
Income from investments.....	271	108
Interest on savings bank accounts.....	35	50
Repayment of loan.....	200	—
Total.....	\$ 8,346	\$ 6,144
<i>Expenses and Distributions:</i>		
Payments made for assistance.....	\$ 2,650	\$ 2,400
Stationery, printing and other expenses.....	73	75
Total.....	\$ 2,723	\$ 2,475
Excess of income over expenses and distributions.....	\$ 5,623	\$ 3,669

### Report of the Advisory Council of State Society Presidents

TO THE COUNCIL OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: The committee to report to the council expresses the great appreciation of the chairman and secretary of the Advisory Council for the splendid cooperation and assistance received throughout the past year from the staff of the American Institute office and particularly from Frank A. Gale, who was appointed assistant secretary to the Advisory Council. Mr. Gale and Mr. Carey have made many suggestions for constructive action during the year and in planning for our annual meeting held on Monday, October 16, 1944. They have made program and meeting arrangements, mailed circular letters to the state society presidents and in many ways have relieved the chairman and secretary of details that would otherwise have been burdensome. They have made the performance of the duties of these offices a genuine pleasure throughout the year.

There have been frequent communications with the presidents of state societies in the name of the Advisory Council. In January, assistance was sought and received in obtaining action by state societies, and publicity throughout the states, for the tax simplification plan promulgated by the committee on federal taxation. In February, letters were issued in connection with tax return extensions; in April, letters urging attendance at the May meeting of council in response to invitation by council, letters furnishing an abstract from the *Congressional Record* concerning the appropriation for audit of the T.V.A., and letters urging participation in the Fifth War Loan Drive.

In June, copies of the model C.P.A. bills were distributed and study urged. In September and October, several mailings were made concerning the plan for coöperation between the Institute and state societies and in preparation for the October meeting.

Members of the Advisory Council were particularly appreciative of the opportunity to attend the May meeting of the council of the Institute—25 state societies were represented at that meeting.

OPEN SESSIONS, OCTOBER 16, 1944

Approximately 80 persons attended both the morning and the afternoon open sessions. At the morning session, three papers were presented upon the model C.P.A. bills. T. Dwight Williams of Oklahoma presented the outlines of the problem and the objectives of the Institute committee on state legislation. C. F. Milledge of Houston, Texas, president of the Texas Society and a member of Mr. Williams' committee, presented an analysis of the model restrictive law and Carl W. Lutz of Illinois presented a description of the problem encountered in Illinois—and the solution of the problem in the new Illinois Accountancy Law.

A general discussion followed these presentations. On showing of hands, the meeting registered its consensus of opinion on specific questions as follows:

1. That the requirement of citizenship in the United States of America is a necessary qualification for a holder of a C.P.A. degree and that it should be continued in the model acts.
2. That it is undesirable to grant an automatic classification as public accountant in two-class legislation based solely upon experience of governmental employees.

The afternoon session of the open meeting was devoted to consideration of cooperation with the American Institute. George S. Olive described the objectives of his committee and details of the report which had been reported to the Advisory Council by the council of the Institute. A general discussion followed and a roll-call was taken by states, each president describing the sentiment of his society as to the objectives of the plan—the extent to which his society is prepared to finance the development and size of the membership of his society. A stenotype record of these comments will be available for the use of Mr. Olive's committee. Of the thirty-one state societies present, twenty-nine expressed enthusiastic support for the objectives of the plan and two expressed lack of interest. Sixteen of the societies reported that they were presently prepared to render financial support to the plan, to the extent of \$1.00 per member. Many of

the others reported that changes would be required in the by-laws of the societies, that it would be necessary to raise their dues, or that subsequent action by their memberships would be necessary.

Eric P. Van reported concerning the matter of the adoption of further rules against competitive bidding, which was discussed at length in two preceding annual meetings, to the effect that this matter had been dormant during the year and he had nothing further to report at this time.

#### EXECUTIVE SESSIONS, OCTOBER 16, 1944

At the morning session, A. Frank Stewart of Virginia was elected secretary, in the absence of James A. Leach, Jr., secretary, who had sent his regrets that he was unable to attend. Thirty-one states answered the roll-call. This committee was appointed to report to council and a nominating committee was appointed—consisting of Henry J. Pratt of Alabama, Frank G. Short of California and William H. Goldberg of Colorado. At the afternoon session, the following officers were elected for the ensuing year:

Chairman—C. F. Milledge, Texas  
Secretary—M. C. Conick, Pennsylvania

A committee to draft a resolution for report to the council of the Institute on the coordination plan, was appointed by the chairman, consisting of Howard L. Mann, president of the Massachusetts Society as chairman, John F. Hartmann, president of the Louisiana Society, and William H. Goldberg, president of the Colorado Society. The resolution as adopted (after one amendment from the floor) was as follows:

RESOLVED, The Advisory Council of State Society Presidents recommends the adoption of a plan of coordination between state societies and the American Institute of Accountants similar in objectives to the plan outlined on page 35 of the May, 1944, reports to council, on the basis that

- (1) A committee of state society presidents formulate and present a definite plan for presentation to and action by state societies.
- (2) The operation of the plan be supervised and controlled by a committee of eight members of the Advisory Council of State Society Presidents, selected by

that body at its annual meeting. The chairman and secretary of the Advisory Council shall be ex-officio members of said committee. Four members of the first committee shall serve for one year and four for two years. Thereafter, four members shall be selected annually for a term of two years to fill the expired terms.

- (3) The plan is to be financed by the state societies on the tentatively suggested basis of \$1.00 per member.

It is the belief of the committee which has signed this report, that the sentiment of the 1944 meeting of the Advisory Council was strongly in support of the objectives presented by Mr. Olive, and that the state societies feel the need of further coordination, committee by committee, between the national and state organizations. The inability of the American Institute to finance the activity appears, however, to be the occasion for some hesitation. The president of the California Society pointed out, for example, that a California C.P.A., belonging to both the American Institute and the California Society, already has 71 per cent of his combined association dues spent, and only 29 per cent spent at the state level. Whereas, the percentages are approximately reversed for California members of the legal and medical professions. Others expressed the opinion that if the state societies are to raise \$12,000 each year, they should be able to make certain that the funds are spent along channels specifically desired by the societies.

It is believed that the suggestion of a committee of eight persons from the Advisory Council, included in the resolution, recognizes (1) that there is a desire to refrain from complete integration (such as, for example, exists in the National Association of Cost Accountants); (2) that the Advisory Council is willing, through a committee, to assist the Institute committee to arrive at a plan which will enlist every state society; and (3) that some participation is desired in spending the money we are to raise and that this participation can be achieved in the same cooperative spirit that has been proved to exist by our joint activities in the past.

While the resolutions committee was at work, an informal discussion was held upon detailed problems of state society operation, including employment of public

relation's counsel, publicity, methods of following bills proposed in state legislatures and other topics. Some consideration was given to the proper extent of the participation by state societies in war loan drives. It appeared to be agreed that this question should be decided in the light of local conditions, depending principally upon whether local war loan drives were organized by professional groups. It was considered very undesirable for C.P.A.'s to be placed in any position where they would be expected to solicit clients or to advise their clients as to the extent of their subscriptions.

EVENING SESSION, OCTOBER 16, 1944

An evening session was held, at which the Advisory Council acted as hosts to the council of the American Institute and to the officers of the Association of Certified Public Accountant Examiners. At this meeting, Victor H. Stempf, president, and Jay A. Phillips, vice-president of the Institute, spoke upon the activities of the Institute and J. D. P. Arnold of Alabama and William H. Goldberg of Colorado reported informally to council upon the topics discussed at our morning and afternoon sessions, respectively.

The possibilities of bringing about a situation where the Bureau of Internal Revenue could make use of C.P.A. certifications of federal income tax returns was discussed. Opinions were expressed that this development is dependent upon drastic revision of the federal tax laws, which would bring the concept of taxable income

into closer agreement with the concept of net income, determined in accordance with generally accepted accounting principles.

SPECIAL SESSION, OCTOBER 17, 1944

The Advisory Council also held a session on Tuesday, October 17, at the suggestion of officers of the Army and Navy, for the presidents of twenty-two of the state societies who had indicated a desire to accept the invitations of the officers to assist in state society meetings on war contract termination problems, to be held throughout the country in November and December. This meeting was addressed by Col. John W. McEachren, Commander J. S. Seidman, Lt. Col. Fladger F. Tannery, Lt. Col. Victor Z. Brink, and Mr. Frank A. Gale. The types of meetings to be held and the topics to be presented were discussed and the plans for these meetings were further developed.

A stenotype record was made of the open and executive sessions on October 16, 1944, which will be available for review by the staff of the American Institute and the interested committees of the Institute.

Respectfully submitted,

Committee to report to the council of  
the American Institute of Accountants

DONALD M. RUSSELL, *Chairman*  
A. FRANK STEWART, *Acting Secretary*  
C. F. MILLEDGE  
M. C. CONICK

October 18, 1944

## APPENDIX C

Certificate of Incorporation. Certificate of Change of Name.  
By-laws of the American Institute of Accountants.  
Rules of Professional Conduct. Rules  
of the Board of Examiners



CERTIFICATE OF INCORPORATION  
OF  
The Institute of Accountants in the United States  
of America

We, the undersigned, John E. Bates, Howard C. Beck and Joseph E. Sterrett, all of whom are persons of full age and citizens of the United States, and a majority of whom are citizens of the District of Columbia, desiring to associate ourselves for the purpose of forming a corporation under and by virtue of the provisions of sub-chapter 111, of chapter XVIII, of an act of congress entitled "An act to establish a code of law for the District of Columbia" approved March 3, 1901, and the acts amendatory thereof and supplemental thereto, do hereby certify, as follows:

First: The name or title by which such corporation shall be known in law is "THE INSTITUTE OF ACCOUNTANTS IN THE UNITED STATES OF AMERICA."

Second: The term for which it is organized is perpetual.

Third: The particular business and objects of the corporation are: to unite the accountancy profession of the United States of America; to promote and maintain high professional and moral standards; to safeguard the interests of public accountants; to advance the science of accountancy; to develop and improve accountancy education; to provide for the examination of candidates for membership; and to encourage cordial intercourse among accountants practising in the United States of America.

Fourth: The number of its trustees, directors or managers for the first year of its existence is thirty-nine.

IN WITNESS WHEREOF, we have made, signed and acknowledged the foregoing certificate this twenty-third day of May in the year one thousand nine hundred and sixteen.

(Signed) JOHN E. BATES,  
HOWARD C. BECK,  
JOSEPH E. STERRETT.

City of Washington, }  
District of Columbia } ss.:

I, Charles E. Riordan, a notary public, in and for the District of Columbia, do hereby

certify that John E. Bates, Howard C. Beck and Joseph E. Sterrett, being personally well known to me as the persons whose names are signed to the certificate of incorporation, hereto annexed, bearing date the 23rd day of May, 1916, personally appeared before me in said district, on said day and separately, severally and individually acknowledged the same before me, and that they severally signed the same for the purposes therein set forth.

Given under my hand and notarial seal this 23rd day of May, 1916.

(Signed) CHARLES E. RIORDAN,  
*Notary Public.*

OFFICE OF THE RECORDER OF DEEDS,  
District of Columbia.

NOTORIAL  
SEAL

This is to certify that the foregoing is a true and verified copy of the certificate of incorporation of "The Institute of Accountants in the United States of America," and of the whole of said certificate, as filed in this office the 23rd day of May, A. D. 1916.

In testimony whereof, I have hereunto set my hand and affixed the seal of this office this 23rd day of May, A. D. 1916.

(Signed) R. W. DUTTON,  
*Deputy and Acting Recorder of Deeds, D. C.*

THE INSTITUTE OF ACCOUNTANTS  
IN THE UNITED STATES  
OF AMERICA

CERTIFICATE OF CHANGE OF NAME

We the undersigned, W. Sanders Davies, president, and A. P. Richardson, secretary, respectively, of the Institute of Accountants in the United States of America, a corporation formed under and by virtue of the provisions of sub-chapter 111, of chapter XVIII, of an act of congress entitled "An act to establish a code of law for the District of Columbia," approved March 3,

1901, and the acts amendatory thereof and supplemented thereto, do hereby certify, pursuant to the provisions of section 602 of said act, as follows:

First: That the written consents to the change of name of said corporation to "The American Institute of Accountants" have been duly given by more than two-thirds of the members of its governing board, known as its "council," to wit: by 32 members of said council, out of a total membership of thirty-nine.

Second: That attached hereto are the original written consents of said thirty-two members of said council.

Third: That the original name of said corporation was The Institute of Accountants in the United States of America, and the new name by virtue of such consents and of the filing of this certificate will be "The American Institute of Accountants."

Fourth: That the term of corporate existence as specified in the original certificate of incorporation thereof, and as continued hereby, is perpetual.

IN WITNESS WHEREOF, we have hereunto

subscribed our names this 16th day of January, 1917.

W. SANDERS DAVIES, *President.*

A. P. RICHARDSON, *Secretary.*

State of New York, }  
County of New York } ss.

I, W. C. Lawson, a notary public, in and for the county of New York, in the state of New York, do hereby certify that W. Sanders Davies and A. P. Richardson, being personally well known to me as the persons whose names are signed to the foregoing certificate bearing date the 16th day of January, 1917, personally appeared before me in said county on said day, and separately, severally and individually acknowledged the same before me, and that they severally signed the same for the purposes herein set forth.

Given under my hand and notarial seal this 16th day of January, 1917.

NOTARIAL  
SEAL

W. C. LAWSON,  
*Notary Public.*

Notary Public, Kings County, with certificate filed in New York County 171.

# BY-LAWS

## OF THE

### American Institute of Accountants

#### ARTICLE I

##### NAME AND PURPOSES

SECTION 1. The name of this organization shall be The American Institute of Accountants. Its objects shall be to unite the accountancy profession of the United States; to promote and maintain high professional and moral standards; to assist in the maintenance of high standards for the certified public accountant certificate in the several states; to safeguard the interests of public accountants; to advance the science of accountancy; to develop and improve accountancy education; to provide for the examination of candidates for membership; and to encourage cordial intercourse among accountants practising in the United States of America.

#### ARTICLE II

##### MEMBERSHIP

SECTION 1. The Institute shall consist of members and associates.

SEC. 2. Members shall be:

(a) Fellows of the American Association of Public Accountants at September 19, 1916, admitted to membership prior to November 1, 1916.

(b) Persons who shall qualify for examination and election as provided in section 4 of this article and shall be recommended by the board of examiners after examination and shall be elected by the council.

(c) Members of the American Society of Certified Public Accountants in good standing as of August 31, 1936, who shall elect to become members.

(d) Associates of the Institute in good standing as of August 31, 1936, who elect to become members.

SEC. 3. Associates shall be:

(a) Associate members of the American Association of Public Accountants at September 19, 1916, admitted as associates prior to November 1, 1916.

(b) Persons who shall qualify for examination and election as provided in section 5 of this article and shall be recommended by the board of examiners after examination and shall be elected by the council.

(c) Members of the American Society of Certified Public Accountants in good standing as of August 31, 1936, who shall elect to become associates.

SEC. 4. The following persons may qualify for examination and election as members of the Institute provided that they be not less than twenty-one years of age and shall present evidence of preliminary education satisfactory to the board of examiners:

(a) Associates who shall meet the requirements stated in the following paragraphs of this section.

(b) Accountants engaged in public practice, or accountancy instruction in schools recognized by the board of examiners, who shall have been in practice or in accountancy instruction for a period of not less than five years. The board shall satisfy itself in each case that the applicant's experience has been sufficiently continuous and of such a character as to warrant his admission to membership. The board may give credit in its discretion for accountancy work of an outstanding character which in its opinion is clearly equivalent to public practice.

(c) After January 1, 1936, no applicant shall be admitted as a member unless he holds a valid and unrevoked certified public accountant certificate issued by the legally constituted authorities of a state or territory of the United States of America or of the District of Columbia.

(d) Any associate engaged in public practice who shall have been in possession of a certified public accountant certificate for more than ten years and shall be eligible for advancement to membership shall automatically be advanced to membership.

SEC. 5. The following persons may qualify for examination and election as associates of the Institute, provided, that they shall be not less than twenty-one years of age and shall present evidence of preliminary education satisfactory to the board of examiners:

(a) Accountants who shall have been in practice on their own account or in the employ of a practicing public accountant for not less than two years, or shall have had experience which in the opinion of the board of examiners is equivalent to two years' public accounting practice, and at the date of application shall be engaged in work related to accounting.

(b) Accountants who shall have been engaged in accountancy instruction in schools recognized by the board of examiners for a period of not less than three years next preceding the date of application, provided

(c) After January 1, 1936, no applicant shall be admitted as an associate unless he holds a valid and unrevoked certified public accountant certificate issued by the legally constituted authorities of a state or territory of the United States of America or of the District of Columbia.

SEC. 6. All credits for education and experience shall be allotted by the board of examiners, and the board shall have discretion to determine whether or not any applicant's experience is of a nature satisfactory for purposes of these by-laws.

SEC. 7. Upon election each member or associate shall be entitled to a certificate setting forth that he is a member or an associate of the Institute, but no certificate shall be issued until receipt of initiation fee and dues for the current year. Certificates of membership shall be returned to the council upon suspension or termination of membership for any cause except death.

SEC. 8. Members of the Institute shall be entitled to describe themselves as Members of the American Institute of Accountants and associates as Associates of the American Institute of Accountants.

ARTICLE III

SECTION 1. The dues for each fiscal year shall include the cost of subscription to *The Journal of Accountancy* and the *Yearbook* of the Institute and shall be as follows:

By each member.....	\$25
By each associate who shall have been in possession of a certified public accountant certificate for less than five years.....	10
By each associate who shall have been in possession of a certified public accountant certificate for more than five years.....	15

SEC. 2. All dues shall be paid in advance and shall be apportioned in the first instance to the end of the fiscal year. No dues shall be paid by members and associates of the Institute while they are engaged in military or naval service of the United States or its allies during war. Members of the Institute who have reached advanced years may be excused from the payment of dues on the recommendation of the executive committee.

ARTICLE IV

VOTING

SECTION 1. Every member of the Institute shall be entitled to attend all meetings of the Institute and to cast a vote upon all questions brought before such meetings.

SEC. 2. Associates of the Institute shall not be entitled to vote, but may attend all meetings of the Institute and have the privilege of the floor in the discretion of the chair or of the meeting in session.

SEC. 3. Any member of the Institute may be represented at regular and special meetings of the Institute by another member acting as his proxy, provided, however:

(a) That no person shall act as a proxy for more than five members.

(b) That no proxy given shall confer power of substitution and that all proxies shall be valid only for the meeting for which specifically given.

ARTICLE V

TERMINATION OF MEMBERSHIP

SECTION 1. Resignations of members and associates may be offered in writing at any time and shall be effective on the date of acceptance. Action upon the resignation of a member or an associate in good standing shall be taken by the executive committee and, in the case of a member or an associate under charges, by the council.

SEC. 2. A member or an associate who

fails to pay his annual dues or any subscription, assessment or other obligation to the Institute within five months after such debt has become due shall automatically cease to be a member or an associate of the Institute, unless in the opinion of the executive committee it is not in the best interests of the profession that his membership be terminated in this way.

SEC. 3. (a) A member or an associate who shall resign while in good standing may be reinstated by the executive committee, provided the person applying shall submit with his application for reinstatement a reinstatement fee of \$5.

(b) The executive committee, in its discretion, may reinstate a member or an associate whose membership shall have been forfeited for non-payment of dues or other sums due by him to the Institute, provided the person applying shall submit with his application for reinstatement the amount of dues and assessments which would have been payable by him if he had not forfeited his membership, plus a reinstatement fee of \$5, the total amount payable in any case not to exceed \$30.

(c) No person shall be considered to have resigned while in good standing if at the time of his resignation he was in debt to the Institute for dues or other obligations. A member submitting his resignation after the beginning of the fiscal year, but before expiration of the time limit for payment of dues or other obligation, may attain good standing by paying dues prorated according to the portion of the fiscal year which has elapsed, provided obligations other than dues shall have been paid in full.

(d) A member or an associate who has resigned or forfeited his membership may not file a new application for admission but may apply for reinstatement under paragraphs (a) or (b) of this section.

SEC. 4. A member or an associate renders himself liable to expulsion or suspension by the council sitting as a trial board if

(a) he refuses or neglects to give effect to any decision of the Institute or of the council, or

(b) he infringes any of these by-laws or any of the rules of professional conduct as approved by the council of the Institute, or

(c) he is declared by a court of competent jurisdiction to have committed any fraud, or,

(d) he is held by the council to have been guilty of an act discreditable to the profession, or

(e) he is declared by any competent court to be insane or otherwise incompetent, or

(f) his certificate as a certified public accountant is revoked or withdrawn by the authority of any state or territory of the United States or of the District of Columbia, or

(g) his certificate as a certified public accountant shall have been revoked or withdrawn by the authority of any state or territory of the United States or of the District of Columbia and such revocation or withdrawal remains in effect.

SEC. 5. A member or an associate shall be expelled if the council sitting as a trial board finds by a majority vote of the members present and entitled to vote that he has been convicted of a felony or other crime or misdemeanor involving moral turpitude. If in such a case the conviction shall be reversed by a higher court, such member or associate may request reinstatement and such request shall be referred to the committee on professional ethics which, after investigating all related circumstances, shall report the matter to the council with the committee's recommendation, whereupon the council sitting as a trial board may by a majority vote of the members present and entitled to vote reinstate said member or associate.

## ARTICLE VI

### TRIALS AND PENALTIES

SECTION 1. Any complaint preferred against a member or an associate under section 4 of article V shall be submitted to the committee on professional ethics. If, upon consideration of a complaint, it appears to the committee that a prima-facie case is established showing a violation of any by-law or rule of conduct of the Institute or conduct discreditable to a public accountant, the committee on professional ethics shall report the matter to the executive committee, which shall summon the member or associate involved thereby to appear in answer at the next regular or special meeting of the council.

SEC. 2. If the committee on professional ethics shall dismiss any complaint preferred against a member or an associate, or shall

fail to act thereon within ninety days after such complaint is presented to it in writing, the member or associate preferring the complaint may present the complaint in writing to the council. The council shall make such investigation of the matter as it may deem necessary and shall either dismiss the complaint or refer it to the executive committee, which shall summon the member or associate involved thereby to appear in answer at the next regular or special meeting of the council.

SEC. 3. For the purpose of adjudicating charges against members or associates of the Institute as provided in the foregoing sections, the council shall convene as a trial board. Members of the committee on professional ethics shall not be entitled to vote as members of the trial board. The executive committee shall instruct the secretary to send due notice to the parties concerned at least thirty days prior to the proposed session. After hearing the evidence presented by the committee on professional ethics or other complainant and by the defense, the trial board by a two-thirds vote of the members present and entitled to vote may admonish or suspend for a period of not more than two years the member or associate against whom complaint is made or by a three-fourths vote of the members present and entitled to vote may expel the member or associate against whom complaint is made. A statement of the case and the decision of the trial board thereon, either with or without the name of the person involved, shall be prepared by the executive committee and published in *The Journal of Accountancy*.

SEC. 4. At any time after the publication in *The Journal of Accountancy* of a statement of the case and decision of the trial board thereon the council, sitting as a trial board, members of the committee on professional ethics not being entitled to vote, by a three-fourths vote of the members present and entitled to vote may recall, rescind or modify such expulsion or suspension.

## ARTICLE VII

### COUNCIL AND OFFICERS

SECTION 1. The governing body of the Institute shall be a council consisting of:

(a) Thirty-five members in practice, to be increased by the following method

to forty-eight members in practice, not more than six of whom shall be residents of the same state: At each of the annual meetings in 1940 and 1941, nine members in practice shall be elected for a term of three years or until their successors shall have been elected; thereafter, sixteen members in practice shall be elected at each annual meeting for a term of three years or until their successors shall have been elected; and

(b) The following officers of the Institute: a president, two vice presidents (both vice presidents shall not be residents of one state), and a treasurer, all of whom shall be members in practice and shall be elected at the annual meeting for a term of one year or until their successors shall have been elected, and

(c) All past presidents who are members of the Institute.

SEC. 2. The same person shall not hold the office of president for more than two successive years.

SEC. 3. The council shall elect a secretary of the Institute who shall act as an executive officer under the direction of the council. The secretary may be chosen from without the membership of the Institute, but he shall have the privilege of the floor at meetings of the Institute, the council and the executive committee.

SEC. 4. In the event of a vacancy or vacancies occurring between meetings of the Institute in the membership of the council or in any of the executive offices of the Institute, the council shall be empowered to elect a member or members to fill such vacancy or vacancies until the next annual meeting or until a successor or successors shall have been elected. Such election shall be by majority vote of the council and may take place at any regular or special meeting of the council or, in lieu of a meeting, nominations may be called for by the president and the names of the nominees submitted to the members of council for election by mail ballot. Vacancies in the membership of the council shall be filled at the next annual meeting by election by the Institute for the unexpired terms.

SEC. 5. Except in the case of past presidents the office of a member of council shall be rendered vacant by his absence from four consecutive meetings of the council.

## ARTICLE VIII

## DUTIES OF COUNCIL AND OFFICERS

SECTION 1. It shall be the duty of the president or, in his absence, of one of the vice presidents or other members of the council designated by the council to preside at all meetings of the Institute and of the council. The president shall call special meetings of the Institute or of the council when he deems it necessary, or when requested to do so by the executive committee, or upon the written request of at least one hundred members of the Institute for a meeting of the Institute, or of at least five members of the council for a meeting of the council. Special meetings of the Institute or of the council shall be held at places designated by the executive committee.

The duties of the vice presidents and the treasurer shall be those usually appertaining to their respective offices.

The secretary, in addition to performing the usual duties of his office, shall discharge such other duties as may be assigned to him by the council or by the executive committee. The secretary of the Institute shall be the secretary of all committees.

SEC. 2. It shall be the duty of the council to take control and management of all the property of the Institute, to elect or appoint such agents or employees as may be necessary for the proper conduct of the affairs of the Institute, to keep a record of its proceedings and to report to the Institute at each annual meeting. The council shall exercise all powers requisite for the purposes of the Institute.

SEC. 3. The council shall adopt an annual budget showing the money appropriated for the purposes of the Institute and estimating the revenue for the ensuing year. No debts shall be contracted nor money expended otherwise than as provided in the budget without the approval of a majority of the council. The council shall, at least three months prior to the annual meeting of the Institute, appoint certified public accountants to audit the accounts of the Institute and its affiliated organizations for the current fiscal year. The report of the auditors shall be submitted to the members of the Institute at the annual meeting and shall be published for the information of the membership.

SEC. 4. The council may, in its discretion,

delegate to the executive committee all functions of the council except the election of officers and members, the right to review the rules and regulations of the board of examiners, discipline of members, filling a vacancy in the executive committee and the adoption or alteration of a budget.

## ARTICLE IX

## COMMITTEES

SECTION 1. There shall be fifteen regular standing committees, namely:

EXECUTIVE  
 PROFESSIONAL ETHICS  
 ACCOUNTING PROCEDURE  
 AUDITING PROCEDURE  
 ARBITRATION  
 BUDGET AND FINANCE  
 BY-LAWS  
 CREDENTIALS  
 EDUCATION  
 FEDERAL TAXATION  
 MEETINGS  
 NOMINATIONS  
 PUBLICATION  
 STATE LEGISLATION  
 TERMINOLOGY

SEC. 2. (a) The executive committee shall consist of the president, two vice presidents and the treasurer of the Institute and seven other members of the council elected by the council. Four members of the committee shall constitute a quorum of the executive committee.

(b) The committee on professional ethics shall be elected by the council and shall consist of five members of the council not members of the executive committee.

(c) The committee on nominations shall consist of seven members. Two members of the committee shall be elected by the council from its membership at the meeting of council prior to the annual meeting of the Institute or at any adjournment thereof. Officers and other members of the council whose terms expire within one year shall not be elected to the committee on nominations. The five remaining members of the committee shall be elected by the Institute at the annual meeting and shall be members in practice who are not officers or members of the council. The member of the nominating committee first named by the council shall serve as temporary chairman of the committee until the committee

itself, by mail vote or at a duly called meeting, shall elect a permanent chairman.

(d) The committee on education shall consist of five members appointed by the president for a term of three years, except that, of the members first appointed, one shall serve for a term of one year, two for a term of two years, and two for a term of three years. Appointments to fill vacancies occurring before the end of a term shall be for the unexpired term only.

(e) All other standing committees shall be appointed by the president. The president shall also have power in his discretion to constitute and appoint special committees as occasion may arise.

(f) Except as provided above, all committees shall consist of a chairman and not less than two other members of the Institute and shall serve until the annual meeting of the Institute next following their election or appointment.

SEC. 3. The president of the Institute shall be ex officio a member of all committees.

SEC. 4. Except in the case of the executive committee a majority of each committee shall constitute a quorum for the transaction of business. All committees shall be subject to the call of their respective chairmen, but, in lieu of a meeting of a committee, the chairman may submit any question to the members of the committee for vote by mail, and any action approved in writing by not less than two-thirds of the whole committee shall be declared an act of the committee.

## ARTICLE X

### DUTIES OF COMMITTEES

SECTION 1. The duties of the various committees shall be as described in this article and, in addition, such other duties as are indicated by their respective titles.

SEC. 2. The executive committee shall administer the affairs of the Institute, supervise the finances and exercise such other powers as may be designated by the council. It shall keep minutes of its proceedings and shall report fully to the council at each meeting thereof.

No payments except for duly authorized salaries shall be made by the treasurer without the approval of the executive committee.

SEC. 3. The committee on professional

ethics shall perform the duties set forth in section 1 of article VI and may advise anyone applying to it as to whether or not a submitted action or state of facts warrants a complaint against a member or an associate of the Institute, provided, however, that if the committee finds itself unable to express an opinion, such inability shall not be construed as an endorsement of the action or state of facts.

SEC. 4. The committee on arbitration shall sit as a committee in equity to investigate and decide disputes between members or associates of the Institute or others which shall, by agreement of the parties, be submitted to the committee in due form. If the decision of the committee on arbitration in any dispute be rejected by any member or associate of the Institute, the matter shall be reported to the council, which may instruct the executive committee to prefer charges against the offending member or associate if it shall decide, by a two-thirds vote of members present, but the recommendation of the committee on arbitration should have been accepted.

SEC. 5. The committee on credentials shall convene immediately after the annual meeting of the Institute shall have been called to order and at any time during the meeting may register proxies submitted to it. Only proxies validated by this committee shall be entitled to vote.

SEC. 6. The committee on publication shall supervise *The Journal of Accountancy*.

## ARTICLE XI

### NOMINATION AND ELECTION OF OFFICERS AND MEMBERS OF COUNCIL

SECTION 1. (a) Nominations for officers and members of the council shall be made by the committee on nominations at least sixty days prior to the date of the annual meeting at which the elections are to take place. Notice of such nominations shall be mailed by the secretary to all members at least thirty days prior to the annual meeting.

Before making its nominations the committee on nominations shall send, at least four months prior to the date of the annual meeting, to all the members of the Institute in those states from which, in the opinion of the committee, members should be elected to the council in that



year, a questionnaire requesting the submission within thirty days of names of members resident in the state concerned for election to the council. Nominees for the council shall be selected by the committee on nominations from among the names submitted in response to this request by members of the Institute in the states entitled to representation.

(b) Any ten members of the Institute may submit independent nominations, provided that such nominations be filed with the secretary at least twenty days prior to the date of the annual meeting. Notice of such independent nominations shall be mailed by the secretary to all members at least ten days prior to the annual meeting.

(c) Nominations for officers and members of council may be made from the floor at the time of the annual meeting only by the consent of the majority of the members present in person.

SEC. 2. Election of officers and members of council shall be by ballot. The president shall appoint a chairman and two tellers, who shall receive and count the ballots cast for each officer and member of council and shall announce the result to the presiding officer. A majority of votes shall elect.

If there be no majority on the first ballot for any one or more officers or members of council, additional ballots shall be taken at once for the particular office or offices to which there shall have been no election until an election be effected.

SEC. 3. The members present at any election of officers and members of council, and eligible to vote in such election, may direct the secretary to cast a ballot for any nominee or nominees for such office or offices, and election by such ballot shall be valid and effective.

## ARTICLE XII

### EXAMINATIONS

SECTION 1. The examination of candidates for admission to the Institute shall be under the supervision of a board of examiners, which shall consist of nine members in practice, three of whom shall be elected each year by the council, at its first meeting after the annual meeting of the Institute, to serve for a term of three years.

SEC. 2. The board of examiners shall hold simultaneous examinations for candidates either annually or semiannually, as it may deem expedient at such places in different parts of the country as it may select, where candidates for admission may conveniently attend. Such examinations shall be oral or written or partly oral and partly written, and by this method or such other methods as may be adopted, the board of examiners shall determine the preliminary education and training and the technical qualifications of all candidates for admission before the applications shall be submitted to the council.

SEC. 3. The board of examiners shall organize by the election of a chairman and shall formulate the necessary rules and regulations for the conduct of its work, but all such rules and regulations may be amended, suspended or revoked by the council. The board may appoint duly qualified examiners to prepare examination questions and to grade the papers of applicants. Each applicant shall pay an examination fee, which shall be applied to the payment of expenses incident to examinations.

## ARTICLE XIII

### MEETINGS

SECTION 1. There shall be a regular meeting of the Institute during the period included within the months of September, October and November of each year on a date to be fixed by the executive committee. The fiscal year of the Institute shall end with the 31st day of August of each year.

SEC. 2. Special meetings of the Institute may be convened as provided in article VIII, section 1, at such places as the executive committee shall designate. No business shall be transacted at such meetings other than that for which the meetings shall have been convened.

SEC. 3. Notice of each meeting of the Institute, whether regular or special, shall be mailed to each member and associate of the Institute, at his last-known address, at least thirty days prior to the date of such meeting.

SEC. 4. In lieu of a special meeting, the Institute in meeting assembled may direct, or the council by a majority vote may direct, that the president submit any

question to the entire membership for a vote by mail, and any action approved in writing by not less than a majority of the members of the Institute shall be declared by the president an act of the Institute and shall be so recorded in its minutes. Mail ballots shall be valid and counted only if received within sixty days after date of mailing ballot forms from the office of the Institute.

SEC. 5. Regular meetings of council shall be held within three days prior to and two days subsequent to the annual meeting of the Institute, and in April or May, the dates of such meetings to be fixed by the executive committee.

SEC. 6. Special meetings of the council may be called as provided in article VIII, section 1, of these by-laws.

SEC. 7. Notice of each meeting of the council except the meeting subsequent to the date of the annual meeting of the Institute, shall be sent to each member of the council at his last-known address twenty-one days before such meeting. Such notice as far as practicable shall contain a statement of the business to be transacted.

SEC. 8. A transcript of the minutes of each meeting shall be forwarded to each member of the council within thirty days after such meeting.

SEC. 9. In lieu of a special meeting of the council the president may submit any question to the council for vote by mail and any action approved in writing by not less than two-thirds of the whole membership of the council shall be declared by the president an act of the council and shall be recorded in the minutes of the council.

SEC. 10. Fifty members of the Institute shall constitute a quorum for the transaction of any business duly presented at any meeting of the Institute. Twenty members of the council shall constitute a quorum of the council.

SEC. 11. The rules of parliamentary procedure contained in Robert's *Rules of Order* shall govern all meetings of the Institute and of the council.

## ARTICLE XIV

### ADVISORY COUNCIL

The Institute shall invite presidents of the recognized societies of certified public accountants in the several states and

territories of the United States of America and the District of Columbia to form an advisory council of state society presidents.

The advisory council shall at all times consist of the state society presidents then holding office in their respective societies, but if a member of the advisory council is unable to attend a meeting of the advisory council a member of his society may be designated by the society to represent him at the meeting.

At least once in each year the Institute shall convene the advisory council which shall choose its own chairman and secretary. A majority of the members of the advisory council shall constitute a quorum.

The advisory council shall consider matters submitted to it from time to time by the council of the Institute and in its discretion shall make recommendations to the council of the Institute. A full report of the transactions of the advisory council shall be submitted to the membership of the Institute at the same time as committee reports.

## ARTICLE XV

### AMENDMENTS

The secretary shall embody in the call for the annual meeting all proposals to amend the by-laws prepared by the committee on by-laws for submission to such meeting, and any other proposals to amend the by-laws of which he shall have had notice in writing signed by thirty or more members in good standing at least sixty days prior to the date of such meeting. All such proposals to amend the by-laws shall be presented for vote of the members at the annual meeting, and by consent of the majority of the members present in person other proposals to amend the by-laws which are made by members present in person at the meeting may be presented for vote of the members at any annual meeting. Any proposal to amend the by-laws, if approved by a two-thirds vote of the members present at such meeting in person or by proxy, shall be submitted to all of the members of the Institute for a vote by mail, and if approved in writing by a majority of the members of the Institute shall become effective as an amendment to the by-laws. Mail ballots shall be valid and counted only if received within sixty days after date of mailing ballot forms from the office of the Institute.

## RULES OF PROFESSIONAL CONDUCT

As revised January 10, 1944

(These rules of conduct supplement the disciplinary clauses of the by-laws.)

(1) A firm or partnership, all the individual members of which are members of the Institute (or in part members and in part associates, provided all the members of the firm are either members or associates), may describe itself as "Members of the American Institute of Accountants," but a firm or partnership, not all the individual members of which are members of the Institute (or in part members and in part associates), or an individual practicing under a style denoting a partnership when in fact there be no partner or partners, or a corporation, or an individual or individuals practicing under a style denoting a corporate organization shall not use the designation "Members (or Associates) of the American Institute of Accountants."

(2) A member or an associate shall not allow any person to practice in his name who is not in partnership with him or in his employ.

(3) Commissions, brokerage or other participation in the fees or profits of professional work shall not be allowed directly or indirectly to the laity by a member or an associate.

Commissions, brokerage or other participation in the fees, charges or profits of work recommended or turned over to the laity as incident to services for clients shall not be accepted directly or indirectly by a member or an associate.

(4) A member or an associate shall not engage in any business or occupation conjointly with that of a public accountant, which is incompatible or inconsistent therewith.

(5) In expressing an opinion on representations in financial statements which he has examined, a member or an associate shall be held guilty of an act discreditable to the profession if:

(a) He fails to disclose a material fact known to him which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading; or

(b) He fails to report any material misstatement known to him to appear in the financial statement; or

(c) He is grossly negligent in the conduct of his examination or in making his report thereon; or

(d) He fails to acquire sufficient information to warrant expression of an opinion, or his exceptions are sufficiently material to negative the expression of an opinion; or

(e) He fails to direct attention to any material departure from generally accepted accounting principles or to disclose any material omission of generally accepted auditing procedure applicable in the circumstances.

(6) A member or an associate shall not sign a report purporting to express his opinion as the result of examination of financial statements unless they have been examined by him, a member or an employee of his firm, a member or an associate of the Institute, a member of a similar association in a foreign country, or a certified public accountant of a state or territory of the United States or the District of Columbia.

(7) A member or an associate shall not directly or indirectly solicit the clients or encroach upon the practice of another public accountant, but it is the right of any member or associate to give proper service and advice to those asking such service or advice.

(8) Direct or indirect offer of employment shall not be made by a member or an associate to an employee of another public accountant without first informing such accountant. This rule shall not be construed so as to inhibit negotiations with anyone who of his own initiative or in response to public advertisement shall apply to a member or an associate for employment.

(9) Professional service shall not be rendered or offered for a fee which shall be contingent upon the findings or results of such service. This rule does not apply to cases involving federal, state or other taxes, in which the findings are those of the tax authorities and not those of the

accountant. Fees to be fixed by courts or other public authorities, which are therefore of an indeterminate amount at the time when an engagement is undertaken, are not regarded as contingent fees within the meaning of this rule.

(10) A member or an associate shall not advertise his professional attainments or services. The publication of what is technically known as a card is restricted to an announcement of the name, title (member of American Institute of Accountants, CPA, or other professional affiliation or designation), class of service, and address of the person or firm, issued in connection with the announcement of change of address or personnel of firm, and shall not exceed two columns in width and three inches in depth if appearing in a newspaper, and not exceed one-quarter of a page if appearing in a magazine, directory, or similar publication.

(11) A member or an associate shall not be an officer, director, stockholder, representative or agent of any corporation engaged in the practice of public accounting in any state or territory of the United States or the District of Columbia.

(12) A member or an associate shall not permit his name to be used in conjunction with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that the member or associate vouches for the accuracy of the forecast.

(13) A member or an associate shall not express his opinion on financial state-

ments of any enterprise financed in whole or in part by public distribution of securities, if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or is committed to acquire a substantial interest in the enterprise. A member or an associate shall not express his opinion on financial statements which are used as a basis of credit if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or is committed to acquire a substantial interest in the enterprise, unless in his report he discloses such interest.

(14) A member or an associate shall not make a competitive bid for professional engagements in any state, territory or the District of Columbia, if such a bid would constitute a violation of any rule of the recognized society of certified public accountants or the official board of accountancy in that state, territory, or district.

(15) A member or an associate of the American Institute of Accountants engaged simultaneously in the practice of public accounting and in another occupation must in both capacities observe the by-laws and rules of professional conduct of the Institute.

(16) A member or an associate shall not violate the confidential relationship between himself and his client.

**RULES OF THE BOARD OF EXAMINERS**  
**OF THE**  
**American Institute of Accountants**

AS AMENDED FEBRUARY 20, 1937

**OFFICERS**

The officers of the board shall be a chairman, a secretary, and a treasurer.

**MEETINGS**

Meetings of the board shall be held upon the call of the chairman and shall be called by the chairman upon the written request of three members of the board. One week's notice of all meetings shall be given by the secretary, except that the annual meeting may be held at the place of the annual meeting of the Institute on the day following the adjournment of that meeting. Five members of the board shall constitute a quorum for the transaction of business.

**SECRETARY**

The secretary of the Institute shall be the secretary of the board. The secretary shall keep a record of all applications received and also the records of the meetings and transactions of the board. He shall turn over to the treasurer of the board all moneys received by him.

**TREASURER**

The treasurer of the Institute shall be the treasurer of the board. All moneys received by the board shall be turned over to the treasurer. Disbursements shall not be made by the treasurer except upon the approval of three members of the board.

**OFFICE**

The office of the Institute shall be the office of the board.

**APPLICATIONS AND FEES**

Applications will be considered only when made on blanks which will be furnished by the secretary on request. Application fees shall be as follows:

- (a) No application fee is required of a member in good standing of a state

society of certified public accountants.

- (b) For certified public accountants not members of a state society..... \$10

**EXAMINATIONS**

Under the by-laws of the Institute, only certified public accountants may be admitted to membership and the board will not accept applications from persons who do not possess C. P. A. certificates. No applicant may be admitted who has not passed an examination in accounting and related subjects satisfactory to the board of examiners.

Written examination shall be required of all applicants except as noted in paragraphs (b) and (c) of this section.

**(a) WRITTEN EXAMINATIONS**

When written examination is required the examination given shall be identical with that offered to state boards of accountancy examiners which cooperate with the Institute in the conduct of examinations.

Written examinations shall be conducted simultaneously in all places selected by the board of examiners, during May and November, the dates to be chosen at least ninety days in advance of each examination.

Due notice will be given to each applicant of the time and place selected for holding the examination. Failure to be present and sit for examination at the time appointed will be sufficient cause for exclusion from any session of the examination.

Examinations shall include questions in (1) Accounting practice (Parts I and II), (2) Theory of Accounts, (3) Auditing and (4) Commercial Law. The time required shall not exceed two and one-half days.

Answers may be written in pencil or ink; however, credit will not be given for solutions that are illegible. All supplies necessary to the examination will be furnished by the board, and after use, shall remain the property of the board.

Applicants who shall have passed the examination in two or more subjects (Accounting Practice, Parts I and II, is considered a single subject), at one sitting, shall have the right, on payment of the required fees, to be re-examined, within a limited period, in the subject or subjects in which they have failed to receive passing grades.

#### (b) CREDIT FOR OTHER EXAMINATIONS

The board in its discretion exercised in the case of any individual applicant for admission as member or associate, may recognize in lieu of its own examinations:

1. The passing of a certified public accountant examination of satisfactory standard given by a state or territory of the United States or the District of Columbia.
2. The passing of a satisfactory examination given by a recognized foreign body, on the basis of which a certified public accountant certificate has been issued by any state or territory of the United States or the District of Columbia.

In cases such as the foregoing the applicant may at the discretion of the board be interviewed personally by a member of the Institute authorized to represent the board, who shall report to the board his opinion of the applicant's apparent professional qualifications, personality and general desirability.

#### (c) ORAL EXAMINATIONS

Applicants of advanced age who have received certified public accountant certificates without examination but have had long experience in public accounting, or applicants who have passed written examinations for the certified public accountant certificate, or applicants who have passed written examinations for membership in recognized foreign societies as a result of which they have later received certified public accountant certificates, may be granted oral examinations in the discretion of the board.

Stenographic transcripts of oral examinations shall be approved by a majority of those present at a meeting of the board, before an applicant who has taken an oral examination may be recommended to the council for election.

#### GENERAL

No applicant for admission to the Institute shall be admitted to written or oral examination who shall not have first satisfied all other requirements of the by-laws and these rules, except that in extraordinary cases the board may permit applicants to sit for examination without prejudice to the board's decisions on the applicant's eligibility on other counts.

The board of examiners reserves to itself the right to reject the application of any applicant for admission as member or associate and shall not be required to state the cause for any such rejection.

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