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# Opportunities and Challenges in Accounting

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IN THE complex economic world in which we live today, accounting is an essential tool for recording, analyzing, and interpreting economic and financial data. Management relies on accounting to control and profitably operate its business. Banks and lending institutions rely on accounting, and one of its products, financial reports, in their daily business of granting credit. The government uses and relies on accounting in its dual rôle of custodian of public funds and as assessor and collector of taxes.

Before proceeding further in outlining the rôle of accounting in today's economy, and the opportunities offered to accounting graduates, it may be well to review briefly the developments of the past century or so which advanced accounting to its present status.

Accounting, while used in some form or other ever since pre-historic times, achieved its present eminence during the past century.

The medieval merchant or artisan was, in a sense, using accounting when he listed his assets—probably without giving too much thought to method of valuation—and recorded his debts. The Italians of the fifteenth century are credited with the theory of double-entry bookkeeping. However, it was not until the nineteenth century that our advanced accounting theories began to be developed and applied to business transactions.

The industrial revolution gave modern accounting its footing and started it on the path that has led it to a prominent place among the professions of this century. A stream of scientific and mechanical inventions ushered in the industrial revolution. The need for the large sums of capital required to develop and exploit these inventions and to produce and distribute their products gave birth to the concept of the "limited company." The limited company had as its concomitant the concept of stewardship—the managerial concept. This called for periodic accounting by the managers—the stewards—to the shareholders. The rôle of the present-day accountant was thus created.

Some may argue that accounting would have come into its own even without the limited company. Probably so. But the theory of stewardship of the managers of a limited company gave accounting and the accountant a most important and new dimension—that of the independent and impartial expert reporting to the owners or to third parties on the financial aspects of a business. More about the independence of the public accountant later. The advent of the limited company in England gave rise to a series of parliamentary acts designed for the protection of the interests of the investor. These culminated in what today is known as the “Companies Act” in England. Similar statutes have been enacted by almost every member nation of the British Commonwealth.

As British capital flowed into the United States in mid-nineteenth century, it was followed by the English and Scottish chartered accountants and their accounting theories and practices. This was the start of the accounting profession in this country. The first CPA law in this country was passed by the State of New York in 1896.

The growth of American industry soon surpassed anything the civilized world had ever known. As our industry grew and our economy expanded, so did our accounting profession. Today, nowhere else in the world is the rôle of the accountant so well established, nor has there been developed such a body of literature outlining accounting theories, principles, and practices.

Industry and commerce provided the vehicle that catapulted accounting to its present advanced position. However, the U. S. Government also has had a hand in this development. The income tax laws with their matrix of accounting, the government regulatory commissions such as the SEC, the ICC, and the FPC, through their accounting rules and regulations have contributed materially to the growth and development of the profession.

So much for a thumbnail sketch of the development of accounting in this country.

## OPPORTUNITIES IN ACCOUNTING

Let me now outline briefly the important areas where accounting opportunities exist today for the accounting graduate. They are:

- Public accountancy
- Private practice—industry, commerce, etc.

- Education
- Government

#### PUBLIC ACCOUNTANCY

Public practice—this is the field of the independent public accountant, of the CPA. In this field the CPA is engaged primarily in the examination of financial statements for the purpose of expressing an independent opinion on those statements. The financial statements may be of an industrial client, a mercantile company, a financial institution, a non-profit organization or those of a municipal government. Mark the word “independent.” It is the keystone of the rôle of the CPA. In a large measure it is the foundation on which public accountancy has grown into a profession.

The term “independent,” as it relates to a certified public accountant, has been defined in the rules of the SEC and the rules of professional conduct of the AICPA. Rule 2.01(a) of Regulation S-X of the SEC states in part—

The Commission will not recognize any certified public accountant or public accountant as independent who is not in fact independent. For example, an accountant will be considered not independent with respect to any person or any of its parents or subsidiaries in whom he has, or had during the period of report, any direct financial interest or any material indirect financial interest; or with whom he is, or was during such period, connected as a promoter, underwriter, voting trustee, director, officer, or employee.

Code of Ethics of the American Institute of Certified Public Accountants has this to say about independence:

A member shall not express his opinion on financial statements 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 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.

Independence, however, is a state of mind. Therefore, the CPA, in addition to meeting the requirements of independence outlined above, should also maintain mental independence and objectivity in his work.

In addition to his auditing functions, which generally culminate in the expression of an opinion on the financial statements examined, the CPA also renders advice to his clients on income tax problems, prepares income tax returns and advises management in the area of financial and management controls. Basically his auditing function is the most important, however. All other areas of his service derive from this.

There are approximately 65,000 CPAs in this country today. About two-thirds of these are engaged in the practice of public accountancy as individual practitioners, or as employees or partners of accounting firms.

I believe it would be of interest to you if I were to review briefly the opportunities offered in public accounting to a graduate in accounting. A graduating student has the opportunity of choosing whether to be associated with a small, medium, or large accounting firm. It is not very likely that he will go into public practice as an individual until he has gained a few years of experience and has passed the CPA examination.

You may wonder about the classification of accounting firms as small, medium, and large. In my estimation, a small firm is one that employs one to fifteen employees and may have one or two partners. A medium-sized firm may have fifteen to 100 employees, or more, have half a dozen or more partners, and have one or more offices. The larger firm may be national or international in its scope of operations and employ many hundreds of accountants. The choice of the accounting graduate as to the size and type of accounting firm will depend on many factors which I need not discuss here.

The graduate going with a public accounting firm generally will start as a junior assistant (junior accountant), progress to the rank of senior assistant (semi-senior accountant) after about two years of experience, and move up to in-charge accountant (senior accountant)

after an additional three or four years of satisfactory experience. His progress will be determined primarily by his performance.

The experience gained during the first two or three years of public accounting may vary, depending on the size of the employing firm and the type and size of its clients. Whatever the variation in work, however, the experience will be an invaluable asset to the young accountant later in his career.

With the larger accounting firms, it is standard practice to place a beginner on the audit staff for two or three years before he is given the option to concentrate in a specialized field such as income taxes or management advisory services. This is a sound policy. As mentioned earlier, the foundation of public accounting is auditing. Each person aspiring to a career in public accounting should have sound and adequate training in the fundamentals of auditing.

An in-charge accountant works on a number of different engagements during the year, with the assistance of one or more junior accountants. He works under the supervision of a partner or principal but he is primarily responsible for the on-the-job execution of the engagement.

The man who does an outstanding job as an in-charge accountant and who demonstrates a high sense of responsibility, a high degree of professional competence, and the ability to think clearly and objectively, can expect in time to become a principal. As a principal he will manage a number of jobs or assignments concurrently. He will plan and lay out the work on the engagements under his supervision, review audit programs, working papers, reports, tax returns, etc. He will meet and consult with clients on accounting, tax, or management problems. A principal is on a par with the top accounting executives of a corporation in every sense—in training, in experience, in competence, and in his sense of duty and responsibility.

The next step on the ladder leads to partnership in the firm. An abundance of the qualities enumerated earlier as prerequisites to advancement to the rôle of principal, polished and brightened by a few additional years of experience and maturity, are among the essential requirements for advancement to partnership.

Public accounting is not an easy career to pursue. It requires greater effort and makes greater demands on one's time and energies than many other types of endeavor. The average college graduate finds that he has to undertake further study and preparation before he is able to sit for and pass the CPA examination. There are periods when he works longer than the standard forty-hour week. He travels and is

frequently away from his home and family. These are the inconveniences imposed by public accounting.

But, let us look at the other side of the coin. The work is challenging. It is interesting because it is not routine or mechanical. It offers the opportunity to learn about the problems of a variety of businesses, about the way they operate and function. It offers the opportunity to meet and deal with business executives of proven talent, ability, and integrity. It affords opportunity for the exercise of judgment, initiative, independence, and objectivity. And finally, it affords an opportunity to become a qualified member of an ever-growing profession—not growth in numbers alone, but in stature through the importance of the services it renders to the business community and to the public.

#### PRIVATE PRACTICE—INDUSTRY AND COMMERCE

The functions of the accountant in private industry are too numerous to record. They include cost accounting, budgeting, internal auditing, financial planning and control, systems work, tax work, etc. The designations of accountants engaged in this area may range from that of cost accountant to financial vice president. The well-trained accountant is an important member of the management team in the more progressive companies. More and more accountants are finding their way to the top executive positions in the big companies.

#### EDUCATION

Education offers another important field for the pursuit of an accounting career. Your accounting professors here at the University of Missouri are fine examples of that selfless group that is dedicated to the furtherance and advancement of accounting through teaching. The need for better academic training cannot be stressed. The only way to achieve it is to attract to the universities teachers of the highest intellectual and academic achievements. Industry and public accounting firms should provide opportunities to those teaching at the universities to apply and test their theories in practice and to broaden further their learning through experience.

#### GOVERNMENT

Government is the last but not the least of the important areas for

the accountant. Government accountants may be classified into three broad categories—

- Those who devote their efforts to recording government transactions—receipt, budgeting, and expenditure of government funds.

- Those who act as auditors within the government to see that proper accounting procedures have been followed and that appropriations and expenditures have been made in accordance with proper authorization.

- Finally, those in the enforcement group. This group consists of the agents of the Internal Revenue Service, the accountants employed by the various regulatory agencies, such as the SEC, ICC, FPC.

There is great need for trained accountants in the government. The accounting in many of our governmental agencies is antiquated and ineffectual. Proper budgeting and cost controls are lacking or inadequate. There is waste and duplication because of lack of proper coordination. Here is, indeed, a rich field for the young man with ambition, initiative, and a sense of dedication and patriotic service.

#### GROWTH AND MECHANIZATION

The tremendous growth of American industry and economy during the past decade has brought about some revolutionary changes in the methods and procedures for gathering and recording of financial data, its analysis and classification. Mechanical equipment and electronic data-processing machines have all but eliminated the human element from this phase of accounting work in the larger corporations. As smaller and cheaper electronic data-processing systems are developed, medium-size and small business also will turn more and more to mechanization.

There are those who see evil in this development. They foresee the electronic "brain" replacing the accountant. Nothing could be further from the truth. The gathering and recording of data is, and always has been, a clerical operation requiring little training or knowledge of accounting. Professional accounting should be distinguished from clerical accounting and bookkeeping. The work of the professional accountant is that of interpretation of accounting data for management or for third parties. It is in this rôle that the accountant applies his professional skill and knowledge.

While the accounting profession has come a long way in defining accounting principles, developing auditing procedures and, more im-



portant, advancing the rôle of the accountant in the expanding economy, there remains a great deal more to be done. The projections by economists and governmental agencies of the growth of our population, industry, and national income during the next twenty years stagger the imagination. What should we do to insure the continuing growth and development of accountancy in the decade which we are entering?

### CHALLENGE OF THE FUTURE

The challenge of the coming years can be met by the development of new skills and techniques to meet a changing economy. We should examine critically the educational standards for the profession. The recommendations of the Commission on Standards of Education and Experience for Certified Public Accountants should receive careful examination and be implemented wherever practicable. We should move swiftly toward establishing graduate schools in public accounting.

Personally, I should like to see greater emphasis given to economics and finance in the courses leading to a degree in accounting. I should like to see economics and finance included as added parts to the CPA examination. If we accountants are to function usefully as members of the management team, we should bring to the conference table a deeper understanding of these two important areas of our industrial economy. I believe there is needed greater stress on statistics and statistical analysis. The volume of transactions of modern business makes the application of statistical sampling techniques and analysis an absolute necessity.

We are challenged daily by business men, security analysts, bankers, economists, etc., to explain the apparent lack of uniformity in the application of accounting principles in financial statements. Indeed there are those who would deny that there are any accounting principles. While a great deal of this criticism is unwarranted, the accounting profession should not dismiss it all as baseless.

About a year ago the AICPA established the Accounting Principles Board. The Board is composed of representatives of practicing certified accountants, educational institutions, and private industry. It has, or will soon have, a paid staff that will undertake research in the areas of accounting theory and practice. It is hoped that these studies will become the basis for defining principles of accounting. This is a long-needed undertaking. There are many subjects that require immediate attention and study. High on the list are economic

depreciation, treatment of long-term leases, pension costs, and deferred taxes in financial statements. With the flow of U. S. capital to Europe and other areas of the free world, there is urgent need for the promotion of uniform principles of accounting throughout the free world. These are just a few topics to be tackled. There are many others.

However, the challenge of the future is not to be met by the workings of a committee or a few who devote their time and thinking to research. The challenge is to the profession as a whole. We owe a great deal to those who have guided the profession to its present position of eminence. It is up to us who are now a part of the profession, and up to you who are about to join it, to carry on in the tradition of progress and development of the profession for greater and better service to the public.