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*How the Business Press
Views the Accounting Profession*

by
John L. Cobbs

If I am going to answer the question posed in the title of this talk—how the business press looks at the accounting profession—obviously I must generalize on a grand scale. The business press is not a monolithic entity that always acts the same way and says the same things. Neither is the accounting profession.

The business press, in fact, is many things. At one extreme it is a column of company notes in the Podunk Bugle, written by a cub reporter who also is expected to cover high school basketball. It ranges up from there to the great newspapers, magazines and financial services that maintain large and highly-trained staffs to report and analyze business news.

Similarly, the accounting profession is many things. At one extreme, it is the young man with the sharp pencil who goes over my budget and squeals to the management when my consumption of paper clips exceeds the U.S. norm. It ranges up from there to the great firms that install whole management systems, advise on corporate policy and audit the books of billion-dollar companies.

In this situation there is neither a single viewpoint nor a single object of attention, and it is not surprising that what is said and written about accountants varies all the way from gross libel to gross flattery. As you might expect, the accountant emerges sometimes as a sinister figure juggling the books in the back room, sometimes as an embattled hero defending the right of the public to be honestly and accurately informed and sometimes as a tedious pedant in a starched collar raising fussy objections no one really understands.

By and large the business press tries to look at the accounting profession the way it looks at anything else—with objectivity, curiosity and a healthy dose of skepticism. What it sees when it looks at accounting this way is often edifying, sometimes puzzling and once in a while downright frightening.

In the past year—just to take some random examples—we have had a lively debate on convertible debentures and another one on pooling of interests. We also have had several rather painful liability suits such as those growing out of the Westec and Yale Express cases. And on a less dramatic but no less important plane we are now seeing a quiet conversion of steel industry accounting from accelerated depreciation back to straight-line depreciation.

The last development rouses memories of the great argument years ago when U.S. Steel prematurely insisted on adopting its own brand of accelerated depreciation. At that time it incurred that ultimate snub of the accounting profession—the dissenting footnote. But after the tax law was changed, accelerated depreciation became acceptable and just about everybody used it. Now apparently everybody is going back, and there is no indication that there will be footnotes from the accountants.

You can hardly blame the press if it concludes that accounting principles are rather loose garments that can be put off or put on fairly readily with changes in fashion. If that is so, then it is fair to ask whether we can expect the miniskirt style in depreciation accounts to spread to other industries.

The figure of the accountant that emerges from all this is not at all unflattering. Obviously, he is a smart man and an expert in a demanding and little-known discipline. In general, he seems to be on the side of fairness and honest dealing. But his responsibilities and his motivations are never entirely clear. The rules under which he operates seem to change on short notice, and his "generally accepted principles" do not always seem to command general acceptance. The figure is a little blurred. It seems to be wearing a toga, but the toga is rather frazzled at the hem.

It is perfectly possible that much of the frazzle is not in the toga but in the eye of the beholder. Accounting, unfortunately, is either not taught at all or not taught well in most liberal arts colleges and journalism schools. It has a reputation for being a grubby course; and since it is not required for most degrees, a student who is not headed for a business career is likely to skip it.

Publications that specialize in covering business can and do expect their writers to have some background in accounting theory and practice. But the unfortunate fact is that there are not enough such writers to go around.

Consequently, the young business writer may start out with nothing more than a fast run-through on how to read a balance sheet. It is not surprising that he gets into trouble when he tries to explain paragraphs 8 and 9 of Omnibus Opinion 10 of the Accounting Principles Board.

Please understand. I am not criticizing the business press or making apologies for it. By and large, I think

my colleagues are doing a distinguished job of reporting and analyzing the important business news, winnowing out what is really important from the mass of self-serving publicity that is pushed upon them and digging out the facts on situations that some people would like to see go unnoticed. Moreover—and I think the profession can take much of the credit for this—the understanding of accounting problems on the part of the press is increasing rapidly.

The fact remains that the typical reporter has no real background in accounting and no ready way of acquiring one. When he works a story where some accounting principle is crucial, he has to rely on what you of the profession tell him. If his notes don't quite make sense when he gets back to the office, then he has nothing to rely on but his native wit to straighten them out.

And the accounting profession seems to find it hard to give him the kind of briefing that will insure that his notes do make sense. Partly this is because your professional ethics not only forbid advertising but forbid any undue publicity seeking. Partly it is because your relationship with your client makes you the spokesman for his interests—when you feel that you can speak—rather than a truly detached observer.

But also, if you will forgive me, it is partly because a great many accountants either do not really understand the theoretical basis of accounting or talk as if they don't. Consequently, they cannot explain what they are doing in terms that make sense to anyone but another accountant.

Too many accountants are like the old bookkeeper—now a legend in accountancy humor—who was a model of everything a bookkeeper should be. He sat in a little glass-walled office on one corner of the floor with a window on one side and a door on the other and a line of junior clerks busily posting up the ledgers stretching out in front of him. He never failed to catch an error; his books were always impeccable; and he was considered the final authority and fount of all wisdom. He had just one curious habit: Every morning when he came to work, he would unlock his desk drawer, take out a small piece of paper and stand with closed eyes and moving lips, apparently in some sort of prayer. The office assumed that on that paper was some message of enormous inspiration and high moral principle: a precept on which

one could base a life of honesty and responsibility. Finally, one day he went out to lunch and left his desk drawer unlocked. The junior clerks lost no time getting out the piece of paper and reading it. What it said was: "debits to the window; credits to the door."

This, I am sorry to say, is how a great many accountants still explain what they are doing when the press tries to talk to them about accounting principles. It is bad enough in bookkeeping; but take my word for it, it is murder when you are trying to talk to outsiders. It creates a great deal of probably unjustified suspicion as well as a great deal of genuine misunderstanding.

Question: Mr. Auditor, why did you let your client cut his payments into the pension fund in half this year? Doesn't that distort the comparison with last year's earnings?

Answer: Funding of pension liabilities is a discretionary matter. This action was duly authorized by the board of directors. Debits to the window; credits to the door.

Question: Mr. Auditor, if you figure taxes on the basis of accelerated depreciation, aren't you making earnings look better than they really are?

Answer: Either method of depreciation is acceptable so long as the total does not exceed the value of the asset. Debits to the window; credits to the door.

Question: Mr. Auditor, what is the system of incremental cost accounting that you have just installed for this company?

Answer: You will have to talk to the client about that. We cannot discuss his internal accounting system. Debits to the window; credits to the door.

I am not saying that these answers are in anyway false or misleading. In many cases, they are the only thing that your professional code will let you say.

Nevertheless, they are bad answers from the standpoint of helping the public to understand the role that the accountant plays. They are *too* professional. They assume that the accountant is answerable only to other accountants, that his only communication with the general public should be a ritual recitation of the traditional words of the certificate.

This is wrong. The more complex and sophisticated business becomes, the more urgent is the need to develop a wide understanding of accounting principles and

a wide appreciation of the difference that various accounting techniques can make in reported earnings and assets. If the accounting profession does not actively foster such an understanding, it can expect to be the subject of dark surmises and increasing mistrust. Against that background, any downturn in business that produced a widespread erosion of earnings and assets would put the entire profession in a very uncomfortable position.

I know that no single firm can do much about this single-handed. You are bound by the rules of your profession, and you cannot strike out on your own. You cannot afford to appear as publicity hounds or mavericks, and you cannot alienate important clients by holding them to arbitrary standards not countenanced by the rest of the profession. Nevertheless, I think something should be done in this area. Let me offer some suggestions.

I suggest that the accountants, acting both individually and as a profession, begin a broad program of educating the public in general and the press in particular on accounting principles.

Go back to the colleges and work for better accounting instruction for people who have no intention of becoming accountants.

Review your rules on what an accountant is allowed to say about his clients' affairs and modify them to allow the maximum flexibility for fair interpretation and comment.

Set out systematically to educate the press, especially the business press, in basic principles of accounting and current accounting problems.

What you face is the problem of explaining a very technical subject to a general audience without oversimplifying or making the whole process impossible. It seems to me that there is a problem here important enough to deserve the attention of the most influential and most knowledgeable men in your profession.

There are obstacles, of course. The small accounting firms may very well feel that the whole thing is an elaborate plot to grab the headlines and put them in the shade. Professional educators will be something less than eager to answer your questions about the quality of present instruction in accounting and to accept your suggestions for strengthening it. Some of your important clients un-

doubtedly will take a dim view of any attempt by the profession to go over their heads and deal directly with the public. And the business press, I have to admit, will groan at the idea of having more meetings to cover and more literature to study—especially when the immediate news value is not evident.

Nevertheless, I think a serious program of this sort adopted by the accounting profession would be news in itself. Groaning or not, the press would participate because it is the business of the press to cover the news.

I am sure that at least half of you are itching to stand up and say, "This is exactly what we are doing. The American Institute of Certified Public Accountants is holding seminars for the press. All of the big accounting firms are in constant touch with the colleges. We issue press releases, we write pamphlets and we talk our heads off when the press comes to see us."

Before your good nature gives way under the strain, let me say that I know about the AICPA program. It's excellent, and it is making a tremendous contribution to the sort of understanding that I am talking about.

I also know that the accounting profession, under the leadership of some very farsighted men, has reviewed its ideas of accounting ethics and opened the way for much more fruitful exchanges between the profession and the press. Nothing that I have said in these past few minutes should be construed as a criticism of what you are doing and what you want to do.

Nevertheless, you have made only a beginning, and the very fact that this beginning has been successful should encourage you to do far more. You *should be* doing far more, and you should be thinking not just in terms of this year and next year but of the next ten years. Your object should be to promote a general understanding of what the accountant does and what he does not do on the part of everyone who has a financial stake in U.S. business, and your programs should be broad enough and long-range enough to achieve this objective in the end.

You may think I am smoking opium—and I admit that what I am outlining is a formidable task. However, I think that you have no choice. In a country such as this one, a profession as important as yours simply cannot afford to remain an arcane mystery to the majority of the people.

And so you must follow through on the start you have made. For your own protection you must become missionaries—even if that means that once in a while you have to take the chance of being eaten by the natives.

Before you can tell the public just what accountants are and just what they do, the profession must resolve within itself clearly and beyond a shadow of a doubt certain questions about where your responsibilities lie and just what your relations with your clients shall be.

I am not worried about your activities in the management consulting field. These seem to be a perfectly natural and healthy outgrowth of your basic operation. And there is no reason why they should in any way compromise your independence.

I am worried about a certain ambiguity in the relations between the client, the accounting firm and the public. I am worried because some accountants in some cases seem to feel that their responsibility is to the client and not to the public.

This is a free country, and a man can decide whom he wants to work for and on what terms he wants to work. But if the accounting profession ever draws back from the unpleasant task of enforcing strict and impartial discipline on all its clients—the big and the little alike—it will be inviting trouble.

I can do no better on this point than quote your own Robert M. Trueblood who had this to say in his address to you last year:

“The Securities and Exchange Commission has the present statutory authority to do everything tomorrow that a large segment of our user population would prefer that we accomplish by ourselves through the Accounting Principles Board. The alternative of government regulation is clear, and it is simple. But in my experience detailed regulation by most state and federal authorities—in any field—tends to become sterile and non-viable.”

I could not agree more heartily. And I will just remark in passing that if any of you have ever dealt with railroad accounting, as prescribed by the Interstate Commerce Commission, you have seen the absolute dead end of

accounting principles. It is not entirely a coincidence that this uninformative and largely meaningless system of bookkeeping applies in an industry that has been almost stifled by regulation in the past 25 years.

If accountants are going to prevent the spread of regulatory accounting, they must acknowledge the right of the public to be informed—and to be informed in depth. They must not hesitate to set themselves up as arbiters and to insist on explanation in detail so that the statement they certify will reveal rather than conceal the true facts about the companies whose figures they audit.

A professional is different from a tradesman because he feels he owes his first loyalty to his craft—and through it to the larger society in which he lives and works. He is not just a hired hand, and though he may work for a wage, his duties are prescribed by his profession rather than by his employer.

All of you have been lectured on this subject, and none of you need another sermon on the crucial importance of the attest function in your business. I can only say that you will get nothing but applause from the public if you get tough about it, if you hold your clients to even higher standards and if you set as your goal the publication of the maximum amount of information rather than the minimum.

There is a story about three baseball umpires who were discussing their professional philosophy.

Said the first one, “Some are balls and some are strikes and I calls them as I sees them.”

Said the second, “Some are balls and some are strikes and I calls them as they are.”

Said the third, “Some are balls and some are strikes, but they ain’t nothing until I calls them.”

Gentlemen, you are the umpires. All the assets and income items “ain’t nothing” until you calls them. And the way you call them is so important that there can be no question about where your loyalties lie.

You are the umpires. It is a thankless job, and you have to learn to duck the pop bottles. But without you, we can’t have a ballgame. ●