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Challenges to the Accounting Profession in Panama

by Guillermo Young
of the International Group

SHORTLY AFTER READING AN ARTICLE in the December 1959 issue of the *Journal of Accountancy*, written by the famous North American Certified Public Accountant, Carman G. Blough, entitled "Challenges to the Accounting Profession in the United States," I was asked to write something for the first issue of *Contabilidad y Auditoria*, the official organ of the College of Certified Public Accountants of Panama.

At the time I read the article, I could not refrain from thinking of the challenges to the profession in this country, nor could I refrain from comparing our problems and achievements with those mentioned by Mr. Blough, and it therefore occurred to me that an article dealing with the challenges to the profession in our own country would be interesting to the CPA's of Panama.

Now, I do not pretend to be in the same league with Mr. Blough by any means, nevertheless, having been intimately connected with the accounting profession in Panama for over 30 years, I believe I know a little about the problems that it has faced and passed; I will try to evaluate what the future holds for the profession.

While I have selected the same title for this article as Mr. Blough did for his, I should mention that the two articles differ in concept.

Mr. Blough's concept of challenges deals with the clarification and applicability of accounting principles, while my concept of challenges to the profession in Panama deals with the effects the profession will exercise on the economy of the country in the future.

I make this distinction in concepts for two main reasons:

1. Our acceptance and application of accounting principles are dependent on such acceptance and application in the more advanced countries, particularly the United States of America. Therefore, while these problems are great challenges to the profession in those countries, they are hardly even thought of in Panama, since in such matters, we have always "followed the leader" by generally following what is done in the United States, and specifically, what is adopted or recommended by the American Institute of Certified Public Accountants. This is the only logical course open to us as, needless to say, we are not yet at the stage where we can become the "leader" in setting accounting principles.
2. This being so, then in considering challenges to the profession in Panama, I feel that our concept of "challenges" should deal with the part the profession will play in the future economic development of the country.

In Panama, the history of accounting (that is, accounting based on generally accepted accounting principles) is comparatively short. It can safely be said to begin with the advent of the first income tax law, then called the "Fondo del Obrero" (Workers' Fund) law somewhere around the year 1932. Prior to that time, Panama was among the few utopian countries which enjoyed income tax free existence. Since it was not necessary to render an accounting to any government body, most business men either carried no accounting at all, or if they did, it was rudimentary at best, intended primarily to keep a record of how much was owing to the business and how much was owed. The rare exceptions to this rule were the few medium sized concerns which employed the old-fashioned bookkeeper, symbolized by the black over-sleeves, eye shade, round ruler and high-top desk and stool.

Such was the status of the profession when the Fondo Obrero law became effective, and it does not need much imagination to visualize the chaos this law caused among Panama business men. Imagine men who had been going along for years without any formal set of books; who had never had to give an accounting to anybody, not even to themselves, and above all, who had never had to share their earnings

with the government, now finding themselves suddenly subject to all these restrictions and with very little time to prepare for it.

Overnight the country became a bee-hive of "Public Accountants," offering their "professional" services to comply with the law. It was inevitable that in such a situation, the profession both benefitted and suffered at the same time. It benefitted in that it gained recognition. But it suffered by losing prestige. Bookkeepers and accountants were in demand, and businessmen suddenly realized that accounting records and accounting data were necessary. However, these businessmen looked on this requirement as a necessary evil and many of them looked for ways of obtaining accounting services, not to give them intelligent and helpful data, but rather just to comply with the requirements of the law. Unfortunately for the profession, far too many businessmen found what they were looking for, and so the profession, while it gained recognition, failed to gain any prestige.

This chaotic situation continued up to 1935 at which time, law No. 10 of 1935 was passed through the indefatigable efforts of Mr. Raimundo Ortega Vieto. This law recognized the profession of accountancy, and created the degree of "Contador Publico Autorizado" (Certified Public Accountant). With the creation of the professional accountant, businessmen began to have more respect for the profession, and when the Fondo Obrero was changed to an income tax law, with its higher taxation, they began to realize the benefits the profession could offer.

Not a necessary evil

Gradually, the profession got the opportunity to serve the community in the way it was intended. As business and industry expanded, the need for modern accounting systems was felt, and the profession was not derelict in answering the challenge. Trained personnel have been put in charge of these modern systems. More and more, businessmen in Panama are realizing that good accounting records and data are not a necessary evil merely to comply with the requirements of the Commercial Code and Income Tax law, but rather a means of furnishing them with vital figures to help them manage their business or factory more efficiently.

There is no doubt the accounting profession in Panama has come a long way since the Fondo Obrero law, but in comparison to other countries we are still in our infancy. There is much to be done in the

way of educating the community to the role we are destined to play in our country's future. As I said before, we need not concern ourselves with the challenges to our profession from the concept of principles. Happily for us, we can get the benefit of the progress in this respect from our friends and neighbors in the United States. The challenges to us here in Panama are in applying these principles and this progress to the best advantage in the economic growth of the country.

We, the members of the profession, must keep abreast of all the latest developments in the accounting and auditing field. Ours must be a task of constant and continuous study to be individually on an equal basis with our counterparts in the more advanced countries, and by so doing we will be able to assist our country in its development and expansion.

The challenges to us which I see in the future are many, and we should equip ourselves to meet these challenges as they present themselves. I will cite some specific ones.

To me, one of the biggest challenges we face is that of bringing the standards of our profession up to an equal footing with those in the more advanced countries, such as the U.S.A., Great Britain, Canada, etc. To do this, we must have trained personnel, and our training program must be recognized all over the world as meeting the highest standards of the profession. The accounting curricula of our vocational and technical schools and the University of Panama should be equal in standards to those of the best schools and the best Universities in any part of the world. The requirements for graduation from these vocational and technical schools should be equal or even better than those of the foreign schools, and the requirements at the university of Panama for the degree of Licentiate with specialization in Accountancy and Auditing should be above those required for the degree of "Bachelor" in Anglo-Saxon universities and could be almost equivalent to the requirements for the "Master's" degree in those universities. The requirements for the license of "Contador Publico Autorizado" should be made equal to those for the Certified Public Accountant in the U.S.A., with no loopholes for getting around those requirements.

In espousing the above program, someone is sure to accuse me of wanting to make an exclusive club out of the profession, and while the record will prove quite the contrary, I am not much worried by the accusation. Why? Simply because there is no valid reason why the profession should not be an exclusive Club. It is in Great Britain, Canada and Australia for instance.

Besides, other professions have constituted themselves into "Exclusive Clubs." Try getting into the "Exclusive Club" which is the medical profession, without complying with all the rigorous rules and requirements necessary to enter that profession! I do not agree with the "double" standards adopted for the accounting profession in some of the states in the U.S.A. and I certainly would not recommend that we emulate those states if we are to meet the challenges this expanding country will present to the profession. No! If we are to meet and conquer these challenges, we must set our standards as high as possible.

And why not? This year, 1960, marks the 25th anniversary of the passing of law 10 of 1935, the first law to give official professional status to accountancy in Panama. After a quarter of a century, there is no reason for us to continue lowering the standards of the profession in order to meet political expediency. Law 10 had just begun to be respected in foreign countries when it was replaced by the present law 8 of 1957. This latter law lowered the requirements for the C.P.A. title and license, and as a consequence, allowed the entrance of over 1000 new C.P.A.'s into the ranks without having passed any kind of examination. Are we naive enough to believe that to the public in general, and to bankers, industrialists, businessmen and foreign C.P.A.'s, in particular, the prestige of the profession did not suffer immensely by this new law?

And if we continue this policy, we will not be facing up to the challenges the profession presents, but rather will be very weakly circumventing these challenges as we encounter them in our path towards progress. Let us face the challenges to our profession in an honorable way, and set an example which will be the admiration of the rest of the world.

Important to know about research

Another phase of accounting which in my opinion presents a challenge to the profession, is that of Governmental accounting and auditing practices. If you agree with me that it is not very important for us to expend our limited resources on research, since we are in a position to benefit from the results obtained by researches in countries eminently more prepared to conduct this type of work, then you will also agree that it is most important for us to keep abreast of these new developments and to apply them to our advantage.

The accounting and auditing procedures of all of our Government departments should be on an equal basis with the most modern and

efficient methods in use in any part of the world. I make this statement without any reservation whatsoever attributable to the smallness of our country. I make no reservation for size, for the very smallness of our country should be an advantage to us in the application of these procedures, due to the fact that we are not subject to the unwieldiness inherent in all procedures when they surpass an optimum size.

I mentioned all government departments, but this is particularly true of those that deal directly with the public, such as the Department of Internal Revenue, the Social Security Department, and the Controller General's Office. I believe that the procedures in use in these departments at the present time would compare favorably with the best in use in any part of the world, but this was not always so. There was a time, for instance, when it was almost a loss of prestige to be an auditor in the Internal Revenue Department; but today, quite to the contrary, it is a prestige to be an auditor in that department. What is the result of having faced and overcome this challenge to the profession? The result is due respect from the public for the personnel of the department and added prestige both to the Government and to the profession.

Financial reports . . . leave nothing to be asked for

As for the personnel of the Controller's Office, I believe I can say without fear of contradiction that they enjoy a respect and prestige equal to that of their colleagues in any of the most advanced countries. And I cannot refrain from mentioning that the financial reports put out by the Social Security Department leave nothing to be asked for.

However, we cannot be satisfied with our achievements thus far. We cannot afford to rest on our laurels. Our task must be, I repeat, to keep abreast of all the latest developments in the accounting and auditing field, and to apply these new improvements wherever necessary in order that government may keep apace with the expanding economic development of the country.

The third instance I would like to cite is that of the Certified Public Accountant and the service he renders to the public.

For a long time the professional accountant in Panama struggled against all odds to gain recognition as a professional man. His was a hard up-hill fight, with everything against him, especially the members of the accounting fraternity. The latter were totally against any measures which would impose on them the onus of proving that they were worthy to be classed as professional men, and that accounting had

come of age in Panama, and should be granted professional status. Due to this, even after Law 10 of 1935 became effective, the public classified the new Certified Public Accountants as a kind of glorified book-keepers.

The bookkeeper and the medicine man

This was a challenge to the men and the profession which had to be met and overcome. Fortunately, those who had to face this challenge proved equal to the task, and gradually, the fight was won. By rendering the type of service for which we are specially trained, the public has been slowly educated and today there is no doubt that the Certified Public Accountant in Panama has achieved professional status. True, occasionally we are still referred to as a "bookkeeper," but nowadays this is usually done by the type of layman who would no doubt refer to his doctor as the "medicine-man."

Having reached this status however, let me warn my colleagues against a false sense of security. Much has been accomplished by the Certified Public Accountant, but there is much more to be done. We have gained the professional status we have fought so hard for, but if we are to continue enjoying this professional status, we must grow in stature in the eyes of the public. We must not only continue to render the type of indispensable service which gained us our present status, but must be prepared to offer even more.

Offer Management Services in Panama

We can, for example, become more helpful to our clients by offering our services as business analysts and financial and management consultants. These services are being offered by the Certified Public Accountants in the United States, and some management firms are even offering these services here in Panama.

That is a challenge to the profession in this country; one which we must face. The manner in which we meet this challenge will depend on the members of the profession in general, and the members of the College of Certified Public Accountants in particular.

I feel that we are singularly trained and equipped to render these services to our clients much more efficiently than any foreign management firm. We should be! We know our clients' business better than

any foreign firm does. We know our country better, and from our past experiences, we are in a better position to forecast trends, prepare and control budgets, act as consultants, and in general, assist management in its onerous daily routine.

When not to be conservative

Of course, this type of service calls for special effort on our part. We must spend a great deal of our time in making careful studies of our clients businesses and our analyses must be technically sound. We must know how and when to abandon the accountant's natural conservatism and view a situation from a businessman's point of view, so that our recommendations will be of positive benefit to our clients.

This is a new challenge which inexorable progress has presented to the profession. It is one which will test our abilities infinitely more

About the author . . .

GUILLERMO SAMUEL YOUNG studied accounting through universities in the United States and Scotland. The other two partners in the firm of Young and Young are his brother, Ricardo, and his son, Francisco. Mr. Young is past president of the Board of Accountancy, Republic of Panama; past president, Association of Accountants of Panama; member of the Panama Society of CPAs and the Panama Rotary Club; past treasurer and present chairman of the club's Youth Committee, and treasurer of Las Cumbres Community Civic Council.

About the photo at right . . .

This was the staff of Young and Young on the firm's 20th anniversary, October 25, 1958. Seated from left, Francisco Young, Guillermo Young, and Ricardo Young, all CPAs. Standing from left, Enrique Pinillos, Americo Quintero, CPA (supervisor of audit staff); J. L. Almillategui, Beryl Clark, CPA; Eloisa Juliao, Irma Araica, Mrs. Guillermo S. Young, CPA (senior on audit staff); Carmen Huertas, Silvia Rodriguez, Muriel Taylor, Oscar Vega, Carlos Pinilla and Sr. Valdes, CPA. The firm now has five more employees, three of whom are Certified Public Accountants.

than those we have passed. We must be prepared to meet the challenge.

In conclusion let me state that the examples cited are by no means the only challenges the profession will face in the future. Panama is a young and growing country, and in any expanding economy accounting is bound to play a vital part. This was true in Europe, in the United States and in other parts of the world, and it will prove equally true in Panama. If I have placed undue stress on the three examples I have cited, it is not because I feel that they will be the only challenges the profession will be called upon to face in the future, but rather, because I feel that they are our most urgent ones. If we are to successfully meet all others, we must first deal with those I have cited.

In the past the accounting profession in Panama has demonstrated its ability to face up to the challenges coincidental to a fast-growing community. As the community continues to grow and expand, many more challenges will be faced, but there is no doubt in my mind that the profession will be prepared to meet the challenge.

