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Organizing and Conducting an Accounting Practice*

BY GEORGE S. OLIVE

Please consider that this paper which I am presenting today is a report on a special examination which the officers of the American Institute of Accountants have asked me to make as to conditions and tendencies in public accounting practice, particularly as relating to practices which are local to a community, with reference to the extent of the service rendered, and correspondingly small in size. As my examination has been necessarily limited by my own experience, having been entirely in a rather self-contained business community of medium size, my observations may fall considerably short of fitting conditions in a practice of comparable size in the larger cities.

My analysis of the character of such practices at the end of the period under review compared with the same factors at various dates over the past ten years discloses that while the work ten years ago was almost exclusively detailed work on audits of the accounts of business concerns, with the preparation of reports evidencing the work done, marked changes have occurred during the period in the kind of services performed and in the position of the public accountant in the community. These changes are due to many causes, the most important of which are noted below:

First, due to the financial requirements of the world war, federal income taxes became during 1917 and subsequent years the most important single disbursement by most businesses, and the need for an accurate determination of the amount of taxable income and invested capital made necessary a great deal of constructive work on the part of the public accountant.

Second, the owners and managers of businesses have come to realize more clearly the value for credit purposes of reports from independent accountants.

Third, there has been a marked tendency toward the nationalization of business, with a resulting number of sales, mergers and consolidations of smaller units into larger ones, with a greater degree of ownership by the public. Every case of this kind has

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emphasized the fact that the public accountant is indispensable in such transactions.

As a result of these developments, the demands of the business public for our services have undoubtedly increased during the decade at a rate faster than corresponding requirements for any other class of professional work. While a few years ago, practically all of our time was devoted to auditing and the preparation of audit reports, it is now taken up to a considerable extent with consultations with clients, their attorneys and their bankers with reference to the past history or to the future prospects of the business. Formerly it was too frequently the case that business executives took some action and discovered months or years afterward that they might have avoided complications in income tax or other matters if they had followed some well considered plan, developed by their attorneys and their accountants.

These changes in business conditions have resulted not only in making necessary a higher caliber of accountants and other assistants in the organization, but have even affected the character of the office layout and equipment. Whereas formerly even the partners in a small firm, or the head of the organization, were away from their own offices a considerable part of the time, working at the client's place of business, and a so-called "staff room" crowded with small desks was sufficient for the needs of the other accountants, the principal's time is now devoted almost entirely to work in his office, in consultation, supervision and direction. The staff accountants also, under the plan of organization which will be suggested, respond with better work when they are provided with offices in which they can prepare with more privacy the reports which are to reflect the results of their examinations.

I have intimated heretofore that much of this new work which has developed for us is of a kind which attorneys and accountants cooperate in handling. I have found that the leading firms of attorneys are quite willing and anxious to work with us on such matters and that in spite of the regrettable lack of training in accounting theory and practice in the customary legal education they do recognize the necessity of their clients having their transactions conform to good accounting practice. Prosecution of cases before the treasury department and the United States board of tax appeals has developed the interdependence of the two professions and the overlapping of legal and accounting practice is becoming more evident every day.

As to the physical plan of a public accountant's office and its equipment, the furnishing and the furniture must be left to individual tastes, as we probably should have as much difficulty coming to an agreement as we apparently have in adopting a definition of earned surplus. An attractive and well furnished office will impress your clients, both real and prospective, with evidence of your success. I hope that I can, however, impress you with the reasonableness of my unorthodox ideas with reference to doing away with a staff room. Any man who has the capacity and ambition to get started in public accounting, and for whose services charges are to be made on the basis that he is an experienced and capable accountant, is deserving of a quiet, well lighted and well furnished room as his business home. He can not do work of the kind which should come from our offices, using a small space in a large room with a number of other accountants. I believe that it is advisable to provide in accounting practices of medium size either a single room for each man or one room for each two men who are permanently on the staff. This will help to bring out the best qualities of the individual assistants.

This brings me to further consideration of the accountants who are taken into any practice either as employees or as junior partners. The judgment exercised and good fortune of the principal in selecting associates is the one point more than any other that determines whether the accounting practice will grow and obtain and extend a good reputation. To these associates, regardless of the extent of our supervision of their work, do we entrust the reputations which have cost time, money and hard work to build up. It seems quite unnecessary to emphasize the desirability of choosing these men from those who have been well prepared by adequate school and college training, men of integrity and personality who appear to have some natural liking or aptitude for the work. Such men will take as much interest in preserving and extending the standing of the organization as the principals themselves. Proper leadership of the principal will of course inspire the assistants to follow his example and even to compete with him in the service rendered to clients, the final outcome of such a situation being that the employee feels that he is working with the principal and not for him.

The antithesis of such a careful selection of assistants is unfortunately prevalent among some of the larger firms in the larger cities. It seems quite unreasonable to expect to obtain capable

men for professional accounting work on a temporary basis at the end of the year for a three-months' engagement; if they were really the kind of men we needed, we should probably be unable to hire them in these circumstances. We should certainly criticize severely any business or industry which tried to obtain the services of experienced and well educated men in such a way. I do not believe that this custom prevails in the case of smaller practices, as it is generally possible by careful planning to offset to a considerable extent the seasonal character of our work, and the severity of the end-of-the-year load of work is not so noticeable.

There are two principal ways in which the smaller firms can offset the use by most businesses of the calendar year for their accounting periods. One is by getting some of the clients to use some other period for closing their accounts when the character of their business is such that the annual closing of the accounts can conveniently be made at the end of some month other than December—to use the “natural business year” of that industry. The other way the small practitioner may relieve this condition is by arranging with clients so that work may be done on the current audits at various times through the year; after the accounts are closed the final audit work can then be completed with little delay, and the plan works to the mutual advantage of client and accountant. Another factor beyond our control, which, however, has been helpful in spreading out the work over the year, is, with accountants who take care of the tax matters of their clients, that the federal and local taxing authorities do not have any favorite time for attack; they are likely at any time of the year to require reports or to make some claim which must at least be investigated and possibly defended. I believe that it will be found possible, if plans are carefully worked to that end, to minimize the bad effects of these peaks and valleys of our work, so that a staff of permanent employees may be kept reasonably busy throughout the year. This planning is, of course, one of the important duties of the individual in the firm who distributes the work, thus preventing delays and rendering the services that attract the goodwill of the clients.

If we regard as our principal function serving the business public in connection with the increasing complexities of its affairs, we must be prepared to render this service at whatever time conditions demand it. Whether or not we are in this desirable situa-

tion depends entirely on the ability we may have exhibited in organizing and equipping our establishments. First and most important, do we have associated with us accountants of experience and capacity, and have we exhibited confidence in their ability to the extent of placing on them all the responsibility they were willing to assume, so that they have grown with us to the point where they can help us establish and maintain that most valuable asset of any professional organization, a reputation for integrity and good work? In my opinion such a group can best be brought together from men, who, having had the advantage of a good education and preferably a college degree, have spent several years in handling the accounts of various kinds of businesses. Such men will have had practical experience which enables them to work into public accounting much more quickly than the beginner who hardly knows a charge from a credit. Again my ideas are unorthodox, because the conclusion has forced itself on me that it is neither necessary nor desirable to use men in a medium-sized accounting practice who are commonly known as "juniors." If you object that there is always a great deal of "pick-and-shovel" work on most accounting engagements, I must answer that such detailed work can be reduced materially in volume by the exercise of good judgment and knowledge gained from accounting experience; the total cost to clients on accounting engagements where "senior" accountants only have been used is generally no more and frequently less than where a great deal of the work has been done by "juniors." The quality of the work produced is always better because all parts of the engagement have been handled by accountants who were able to discharge their responsibility satisfactorily. One of these men is in general charge and conducts the work through to the preparation of the report, with more or less frequent conferences with the principals. When the report is completed, it is submitted with the working papers for approval of a partner or other principal, whose examination of the papers is supplemented by discussion of the report with the accountant in charge. There is nothing new about this procedure; I am writing it down, however, because too frequently do we learn, through claims made against public accountants or through trials of members by organizations, that these steps of prime importance are frequently overlooked. Accounting firms, large and small, have in some cases spread themselves out to the extent that work has not been properly supervised. Such re-

grettable occurrences bring out one of the forceful arguments for having only experienced men as assistants.

Accounting offices of the size now under consideration do not often have occasion to work on engagements requiring the services of very many men; most of the work will be cared for by from two to four men, and with these men working separately on the different elements of the accounting records they gain a breadth of experience which enables them to handle almost any kind of a situation, subject, of course, to consultation with the principal on any matters which are unusual or on which there may be divergence of opinion among those working on the engagement. While the work is extremely varied, the accountants associated with such an office have opportunities to specialize along one line; they are general practitioners just as surely as was the old family physician, and they obtain a wide experience in examining and interpreting the accounting records of almost every type of mercantile and manufacturing business, public utilities, financial organizations and that growing group of organizations which are formed not for profit but to care for the charities and the educational and social needs of the community. In spite of the general character of the practice, however, some of the men will of necessity become more experienced and capable in handling some one or more lines of business activity.

I remarked heretofore in this paper that the position of the principal in an accounting organization in his relation to his clients and prospective clients is materially different now from what it was ten years ago. This is so not only because he has been recognized as an important factor in the proper conduct of business affairs, but also because he has in most cases been quite ready to admit his obligation to the business community by serving it in whatever way his ability and inclination directed him. He owes to the community which has given him material success a debt which must be repaid, and evidence is at hand that public accountants are doing their share in the public work which must be done in every city. Such public service, of course, will not only make necessary the contribution of a considerable part of the time of the principals but also will call for a considerable amount of work by the organization on a basis which will little more than cover cost. Please do not think I impugn the motives of these public servants when I point out that there are some compensating advantages in the form of public mention in connection with

this work. As Mr. Ruckstell stated last year in his admirable report to the Institute as president, "Certain professions, like certain kinds of business, do not openly or directly advertise, but publicity helps them. . . . Those who did no advertising, but got public mention when the quality of their work was favorably commented on by printed page or oral dissemination, would be sought out and patronized by the class of clients that could afford to pay."

Assuming that this accounting practice is now well organized with an adequate number of well educated, experienced accountants, all of the status commonly referred to as "senior," and that the business home of the organization is well planned to make it a desirable place to work, what of the other factors which will determine the degree of success of the accounting practice? Among these are the proper use and control of working papers, the development and maintenance of good office records and files, and the cooperation of the office assistants who help us to prepare the reports of our examinations in a form creditable to the organization. On the matter of working papers, the profession now has the advantage of two books, one by J. Hugh Jackson and the other by Messrs. Palmer and Bell, which cover the subject so well that I should waste your time discussing any particular feature. With all the accounting literature produced during recent years, however, I recall only one book (Kester, vol. III, pp. 423-463) dealing extensively with statistical or accounting records of a public accounting practice. This might lead us to assume that we are expected to know our own business, that we are not quite so neglectful of our affairs as the proverbial blacksmith was of his horse. I do believe that any successful practice has of necessity provided itself with adequate records and that a description of the system with which I am most familiar would not serve any useful purpose. On the matter of office personnel, a public accountant should be interested first of all in making sure that his clients' interests are adequately served; one of the principal factors in this connection is a permanent staff of report writers, typists and proof-readers who have the ability to produce from the original rough copy of the report, which is sometimes all too original and rough, a finished document that brings our work most favorably to the attention of our client. Again it takes time and judgment and good fortune to build up such a group of workers.

In conclusion, I believe that notwithstanding loss of clients by the small accounting practice which is apparently certain to

occur through mergers, consolidations and other evidences of the nationalization of business, there is still an expanding field in the profession for the small practitioner. He can and should make for himself a position in the community that is peculiarly his own; in his contacts he can make himself favorably known not only where the results of his work are to be used, but by showing his ability and experience through writing in trade publications and speaking to trade organizations and maintaining active membership and interest in the professional societies which are working for the good of the accountant and the profession.

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