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Report of the President of the American Institute of Accountants

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Report of the President of the American Institute of Accountants*

I desire to express the pleasure that I have experienced during the time I have been privileged to serve as your president and to express the further pleasure at being permitted at this meeting to turn over to my successor the mingled joys and responsibilities attendant upon that office. The coöperation of as able a group of men as any executive should ever wish to have has simplified the task and has brought pleasure along with each problem. To all these co-workers I desire to express my appreciation and my thanks.

During the past two years I have travelled over 20,000 miles on Institute work, and this has given me the opportunity of meeting in many sections of the country accountants whom before I had known only by name or reputation. Their courtesies and friendliness will be long remembered.

During the past year I have spoken to accounting organizations in Detroit, Milwaukee, St. Louis, Kansas City, Chicago, Norfolk and Providence. I also had the privilege of addressing a group of business men, accountants and bankers at Baltimore, and the American Association of University Instructors in Accounting at Washington. I gave the graduation address at the Benjamin Franklin university in Washington and talked to the students of business administration at the university of Michigan and the university of Illinois. I also had the privilege of attending the annual meeting of the Dominion Association of Chartered Accountants at St. John, New Brunswick.

I do not intend in this report to mention all the specific accomplishments of the Institute and its committees during the past year. The various reports presented to you at this meeting enumerate many definite accomplishments. It is needless for me to repeat them. Rather, I would like to lay some emphasis upon the general trend of purpose which has dictated the policies of the last two years. In the main these have been given little publicity. Trends seldom constitute news. Yet it is frequently true that a steady development in specific ways is of much greater value than individual steps which may be publicized but are only mile-posts

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in the journey toward a definite goal. I think, therefore, that I am correct in saying that the items of accomplishment referred to in the various reports submitted to this meeting constitute only a small portion of the accomplishment of the Institute.

The Institute since its organization, has centered its activities on certain kinds of development. I desire to mention a few of these, and I confidently believe that the work of the Institute during the past two years has shown steady progress in them.

The problems of any profession may be divided roughly into two groups: those that are local in nature and those that are general in their effect upon the whole profession. The Institute has concerned itself primarily with the latter group. State and local organizations are fully equipped to handle local problems. In these, the Institute has shown itself always willing to coöperate, particularly in the hope of securing uniformity throughout various sections of the country.

During the past two years the officers of the Institute have attended meetings of state organizations of accountants in twenty states and have spoken to such groups in twenty-four cities. Similarly, the various committees have coöperated with state societies in many problems affecting the profession in specific localities. I think great advance has been made in developing closer relationship between the Institute and local groups of accountants.

The Institute since its inception has considered that one of its primary functions lay in the developing and sustaining of high standards for the profession. A major accomplishment in the setting of technical standards has resulted from the grade of examinations set by the Institute as a basis for admission of its members and supplied to all coöperating states as the basis for issuing certificates as certified public accountants. Because of this, states in which practising accountants were few in number have been enabled to present examinations unexcelled by any state. This has been done at considerable expense to the Institute. The income from this service does not equal its cost. But the Institute takes pride in this contribution to the development of high standards in the profession.

Our effort has also been unswerving in putting accounting standards upon as practical a basis as possible, realizing that accountancy is not an exact science and that the value of a theory must depend upon its practical application. To this end, coöpera-

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tion has been sought from the leading groups which utilize the reports of the accountants. The constant conference with the committee of the Robert Morris Associates has increased the understanding by accountants of what is required by bankers for credit granting and the understanding by the bankers of the limitations under which accountants must labor. During the past two years this work has been extended by the creation of coöperating committees of bankers and accountants in each of the leading cities of the country. This phase of activity has also been carried on through added affiliations later described.

Another important function of the Institute has been the development of a clearer understanding of accountancy by groups not reached through the Robert Morris Associates. These groups include not only corporate officers but a large circle of business men directly interested in financial affairs, such men as directors of corporations, investment bankers and governmental officers. Perhaps the most outstanding results of this sort have come from the coöperation with the New York stock exchange. The committee on stock list is awake to the desirability and the justification of demanding treatment in accordance with sound economic and accounting principles of many transactions that in the past have not received such treatment. They are also eager that corporations shall disclose to stockholders all information requisite to the forming of proper judgment as to the worth of corporate securities. The coöperation of this committee with the committee from the American Institute of Accountants has been and is whole-hearted. It has resulted in the drafting by the New York stock exchange of many new rules relating to accounting subject matter. During the year 1932, the exchange has adopted a policy under which corporations applying for listing of new securities; of additional securities, or of any change in listed securities, are asked to sign an agreement stipulating that all financial statements filed with the exchange or sent to stockholders shall bear the certificate of accountants qualified under the laws of some state or country. These committees have under consideration procedures of still greater import which may be promulgated when they have been completely developed. These should result in simplifying to some extent the problems now facing public accountants and at the same time give to the public additional data upon which to judge more accurately the relative work of various listed securities.

In the development of any profession literature covering the various phases of its work plays an important part. The American Institute of Accountants has already accomplished much in this sphere. During the present year it has enlarged the scope of this activity and is in a position to render more valuable assistance in the publication of needed texts upon accountancy and related subjects.

Of importance to every profession is a proper understanding on the part of the public of what the profession does, what its responsibilities are and some grasp of the limitations upon its activities. The profession of accountancy has developed so rapidly that the understanding of the public has not kept pace with the development. It is gratifying to know that this handicap is gradually being overcome. During recent months articles discussing accountancy work have appeared in many magazines other than those of an accounting nature. In such periodicals as the *Bankers Magazine* there have recently appeared treatises upon the accountant's work showing a clear grasp of the subject and appreciation of its problems. A report of a committee at the annual convention of the Investment Bankers Association, recommended the appointment of a committee to cooperate with the American Institute of Accountants. This cooperation has now been established between a committee of the Institute and the Industrial Securities Committee of the Investment Bankers Association. Developments of great value to the investment bankers, to the accountants and to the investing public are to be expected from this affiliation. In several financial magazines and in leading daily newspapers there have appeared editorials regarding the work of the public accountant. Extracts from speeches and articles by certified public accountants have been widely quoted in the daily press. Publicity of this nature, wise but not blatant, will prove of inestimable value to a proper understanding of our work.

As an indication of the growing recognition that the training and experience of public accountants qualifies them to be of great aid in the successful solution of national and international problems, the American Institute of Accountants was asked to appoint a committee to work on certain problems facing the International Chamber of Commerce. The results of the work of this committee met with the approval of the representatives of many nations at Geneva. Your president was asked by the secretary of

the League of Nations to continue this committee that it might aid in working out further problems of international commerce, particularly the problem of double taxation.

Committees of the Institute are constantly studying improved methods applicable to certain phases of our professional life. Many of these may result in the establishment of precedents. In taking action committing the Institute to such measures, we have always used great care to make sure not only that the proposed action was the proper one but also to consider whether or not the time was proper for such action. It is well, I think, to call attention to the fact that as a result of this conservatism of action, the Institute has not been guilty of putting forth any important measures that have not been amply justified nor has it had to revoke or reverse any such actions. This fact has helped greatly in establishing the reputation of the Institute and has caused added weight to be given by important business groups to its decisions.

A constant problem of the accounting profession lies in the development of procedures to keep pace with changing economic conditions. It must be remembered that the fundamentals of accountancy were built up during a period when commercial transactions were simple and direct. Within the past few decades the whole status of business organizations has changed. Transactions have become complicated beyond the conception of the business man of the 19th century. These complexities were not scientifically planned in advance. They grew step by step as expediency dictated. The accountant called upon to record these operations has had to adapt the established rules to the particular cases. As complexities grew this adaptation of simple rules has become increasingly difficult and complicated. In the twenty years from 1910 to 1930 there was never a pause sufficient to allow a careful scientific devising of methods adequate to meet the changing conditions. Any attempt at this found that before such rules could be established business had already devised new complications.

Cash as a basis for determining values gave place to other bases less accurately measurable. Capital stock was issued for services and for properties whose valuation was undeterminable. The issue of no-par stock introduced another variable into the equation whereby the determination of the value of "X" was made more confusing. Puzzling as were the deals resulting from these

elements they seemed the essence of simplicity compared with those resulting from the issuing of capital stock for capital stock and the issuing of still more stock for this stock, and so on through the progression developed during the hey-day of holding companies within holding companies, reaching its climax about 1928.

Small wonder that accountants trying to record the results of these transactions should have been extremely puzzled to find a logical solution. Small wonder that at times there was lack of uniformity of opinion. Other professions have faced and still face similar problems. Learned judges try to interpret the law in a particular case and disagree as to the interpretation. The ruling of the majority is appealed to a higher tribunal where other learned judges frequently disagree with the findings of the lower court and even disagree among themselves as to the reasons for their disagreement. Yet the law which they interpret is frequently a matter of statutory enactment. The accountant has faced a more difficult task throughout these years. The laws which he attempts to interpret as to their application to specific transactions have not even been enacted in any set form. He has been compelled to apply the variable laws of economics and the fundamental bases of accountancy rules to transactions which were beyond the contemplation of the business man or the economist of a decade before.

Despite the failure at times of his interpretation properly to set forth all facts, the general success of his work is an outstanding testimonial to the basic soundness of accountancy's principles and to the fearless honesty of the accountant himself and to the logic of his reasoning.

The economic chaos through which we have been passing has brought forcibly to our attention the obligation energetically to press forward toward such improvements as lie within the scope of our profession and toward devising proper methods of dealing with the new problems constantly arising as industrial and financial executives continue to experiment in the laboratory of business life.

It is an honor to serve in such a profession, and to serve as an officer of this organization.

Allow me to express my humble appreciation of that honor and to express again to the members my deep appreciation for their able, loyal and hearty coöperation in meeting the problems that have arisen. In passing the responsibilities of this office to my

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successor, I can assure him from my own experience that the apparently arduous work will become, because of this coöperation, merely a pleasant and enjoyable task.

CHARLES B. COUCHMAN