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## Accounting in Its Relation to Other Professions

By GRACE FOX\*

The term "accounting" today includes far more difficult and varied work than originally when it consisted of only account-keeping or booking. A growing recognition of the importance of accounting in the development of modern business methods has led to an increase in the accountant's work necessitating a division of labor. At present the bookkeeper is the person who keeps the books or accounting records of an organization; an accountant is the person who decides how and what records ought to be kept.

Specialization has its virtues, but its faults as well. One recalls the professor and the guide in a canoe on the lake. "Have you studied Latin or Greek?" asked the professor.

"No," answered the guide.

"Well," said the professor, "you have lost a quarter of your life. Have you read history and poetry?"

"No," replied the guide.

"Well, you've lost another quarter of life," said the professor.

Just then the canoe upset and the guide shouted, "Can you swim?" to which the professor burred, "No."

"Well," said the guide, "you've lost the whole of your life."

Accounting, of course, has multiple functions. It has been said that "accountancy is all things to all men. It is at once a picture, a scheme of notation, a language, a technique, a ritual, an instrument and a social institution."

I would like to present you with a brief glimpse into how accounting is related to other businesses and professions.

We might begin with domestic science—that is the home, an important part in every woman's life. Accounting is related to domestic science because good management is an essential in the home as well as in a business organization and budgeting is a prerequisite for good management. Every intelligent housewife keeps a budget. She has a definite amount of money to spend, and, therefore, budgets in order to get the most advantageous use out of it. Budgeting is taking a long view, not a day by day view; it is learning the essentials from the non-essentials. The advantage of keeping a budget is that one has planned a month's or a year's supply ahead of time, according to the need and the cost and thus can tell whether an article will be a bargain or not. It provides a financial goal with the way to attain it.

Turning our attention now to the business world, we shall see how greatly it depends upon accounting. It has frequently been stated that credit is the heart and core of the modern business structure, and the very basis for credit extension lies in the balance sheet. Bankers are relying more than ever on the facts supplied by accountants in making their loans. Since one of the important things about a balance sheet is its date, the accountant, in analyzing a balance sheet for credit purposes, should ascertain at what particular stage of the inflating and deflating process this snapshot of the accounts of the business was taken. Another primary consideration in viewing a corporate balance sheet for credit appraisals is the importance of noting whether it purports to be a summation of the assets and liabilities of the individual company alone, or whether, in the event there are subsidiary units, it represents a consolidation of the assets and liabilities of these subsidiaries with the assets and liabilities of the par-

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ent company. In extending credit, an individual balance sheet should always be obtained, as the cream of the assets in a consolidated balance sheet may be subject to topping by prior creditor claims on subsidiary units.

A comparison of current assets to current liabilities establishes the current position of a business and is taken as a popular guide to its soundness and solvency as evidenced by its ability to meet its obligations as they mature. It is obvious, however, that the adequacy of a given current ratio is dependent not only on its size but also on the quality of the current assets. There are many other methods of viewing balance sheet proportions in which the accountant assists the banker in his work of making loans and business men in general in the extension of credit.

In the field of insurance, the accountant is likewise of great value. Insurance is theoretically based on mathematical averages, found to exist in a collection of statistics over a long period of years. In the computation of insurance premiums and various kinds of annuities, statistical and actuarial accounting has been indispensable. Also, as the greater part of an insurance company's assets are its investments, the accountant is again of service.

And accounting is the servant of the investor, particularly the investor in listed or registered securities. So far as the investor in the corporations whose securities are listed or registered is concerned, accountancy should have one main objective—to disclose the reasonable prospective net earning power of the enterprise. Approaching accountancy with that end in mind compels re-orientation. The profit and loss statement plainly serves the end. The balance sheet becomes useful primarily in so far as it serves as the effective means of estimating future earning capacity. The prop-

erty account, the surplus, the reserves, the current position—all are tools of vital importance, but tools to be used by the investor in determining future net earnings.

One of the most important immediate purposes of accounting for the investor is to show the cost of the company's property—whether it be original cost or the cost at the time the company acquired it, or some other cost. But why does the investor want to know the cost? Because that knowledge will be useful to him in making an estimate of what the company's property can and probably will yield—that is, its earning power. It has been said that one of the most important functions of accounting is to disclose to investors what the management has done with the capital entrusted to it, and with the earnings derived from that capital. In that way the investor learns, in part, the character of the management. But why does the investor want to know that fact? So that he may judge what the property of the company, in the hands of that management, will yield by way of earnings, and so that, in some instances, if he be an existing investor, he may take steps to oust an incompetent or dishonest management which, if not ousted, may seriously injure the future earning power of his investment. In forming such judgments the investor wants to know, among other things, the full truth about how much the company has earned and whether too much or too little of its past earnings have been distributed by way of dividends. For what he wants to know is not merely the future earning power, but how much of the future earnings will and should be available for distribution by way of dividends.

There can be such a thing as excessive emphasis on the importance of the accountant's task. That over-emphasis is unfair to both the accountant and to the public. It tends to create the impression that the

accountant's report will tell the investor all that he needs to know in forming a judgment as to the worth of an investment. Accountants thus need to be both more modest—that is, to indicate more adequately the restricted function of their work—and at the same time to be more conscientious and exacting in the performance of their limited function.

The accountant supplies some of the materials for and some of the ingredients of the investor's judgment. The ingredients he supplies should, therefore, be as pure as possible; but the investor's judgment cannot be compounded solely of these ingredients, nor can the accountant be asked to do the work of the investment analyst. It is, accordingly, essential to emphasize the importance of good accounting, but a mistake to overemphasize it to the exclusion of many other factors affecting the worth of a security.

Continuing on with the subject of governmental accounting, we find that the rapid and extensive growth of federal activities in recent years has increased the importance as well as the complexity of its accounting. There was a time when governmental accounting consisted largely of recording cash receipts and cash disbursements, as though the sole responsibility of treasurers and auditors was to see that there was some kind of voucher or other authority for receiving and disbursing public funds. Today we are also vitally interested in knowing the obligations as well as the uncollected income. Further, we want to know the source and kind of income and the funds to which they specifically apply, as well as the object, fund and function of expenditures.

This changed attitude toward government accounting can be illustrated further by reviewing the recent progress made in the financial administration in several states. The Commonwealth of Kentucky is a

good example. For many years in that state every gubernatorial election was an occasion for the opposition to "view with alarm" the growth of the state's indebtedness. On the other hand, the party or faction in power would "point with pride" to its accomplishments in handling the state's finances. The incumbents would claim that there were millions of dollars in the form of warrant obligations left by the previous administration not recorded or reported, that these obligations had been liquidated and, in addition, a small cash balance left in the treasury. The succeeding administration, however, would find that the old practice of not accounting for actual commitments had been continued. In this manner the state actually accumulated over a period of time some ten million dollars of unauthorized debt.

This condition has been remedied by the installation of an accounting system which will not only control expenditures in accordance with budget estimates, but likewise obligations. Accounting has become one of the means by which those responsible for the financial program of a community may control the execution of that program. Government accounting fulfils its ultimate purpose, therefore, when (1) it assures the execution of the budget according to the instructions of the legislative body, (2) when it protects the municipality against losses due to the illegal acts or dishonesty of its officials, and (3) when it furnishes the information by which the legislative body, the budget-making authority, and the administrative officials are advised of the financial condition and operations of the municipality and are enabled to conduct their respective activities with full knowledge of the status of the finances of the government.

The importance of a well-planned and executed budget is readily seen when it is realized that the amount of taxes and other revenue sources

to be collected must provide for the total of the estimated expenditures as shown in the budget.

The war situation has added many duties to the accountant's work in connection with the government. The United States has found it necessary to prepare for fighting—and to prepare quickly. This is a costly job, and one which requires centralized control of industry. Higher taxes will soon be enacted, and agencies are now in formation to plan and direct industrial activity for defense. In both the raising of revenues and the regimentation of industry, heavy demands will fall upon accountants.

European experience has shown clearly that modern war is both military and economic—the combatants must mobilize their total resources for the struggle. Already our government has found it necessary to limit production in some directions in order to increase it in others; to finance munitions plans which would be useless in the happy event of an early peace; to control prices of essential commodities; to limit profits on government contracts to a fixed amount above cost. The accounting problem involved in such a gigantic readjustment of the economic machinery fairly staggers the imagination. American accountants played an important part in the World War. They may soon find themselves a vital factor in a struggle to maintain order in the midst of chaos.

Last, but not least, in this discourse comes the accountants' relationship with lawyers. Accountants have always been aware of the close relationship between their own field of activity and that of law. In dealing with financial facts and business transactions, we are necessarily dealing with legal relationships and property rights. Furthermore, even the simplest set of records which any of us may devise is so constructed as to enable someone to

discharge his legal obligation to account to someone else for property placed in his custody or for the results of devoting that property to some income-producing use. Public accountancy will grow in importance as a profession as it aids management in discharging its obligations to account to its stockholders, its creditors, to the taxing authorities, and in recent times, even to its employees and to the general public. It is through expressing an independent professional opinion with regard to the financial position of business enterprise and its operating results that the public accountant functions in a capacity which confers upon him a quasi-official status.

This public aspect of the practice of public accountancy brings to mind an interesting parallel suggested by the legal profession. Lawyers are often referred to as "officers of the court," in the sense that it is their function to aid in the administration of the law. They serve the public by advising their clients as to their legal rights and obligations, and they facilitate the effective administration of the law by representing their clients in their contact with the law. However, we should never lose sight of the one essential difference between the relation of the lawyer and that of the public accountant to their respective clients. The lawyer is an advocate, and avowedly represents his client's immediate interests within the framework of the law. The public accountant occupies a different position when he undertakes to express an independent professional opinion. He is not an advocate, for he has assumed a position independent of his client and has thus accepted an obligation to those who may rely upon his opinion. If a lawyer is to be regarded as an "officer of the court" despite his single-minded devotion to his client's interests, how obvious it should be that the public accountant has acquired some sort of public status when he proceeds to issue an independent professional opinion up-

on which the financial community and taxing authorities may, in the ordinary course of event, choose to place great reliance.

I mentioned earlier that in dealing with financial facts and business transactions, public accountants have found themselves involved in a consideration of legal relationships and property rights. There is no doubt that the subject matter which we work with is legal material in many of its important aspects. You have but to glance down each side of any balance sheet, and every item will at once bring to your mind mixed questions of fact and law. The treatment of each item by the accountant inescapably involves on his part assumptions or conclusions as to the legal effect of the transactions recorded on the books of account. The public accountant would be unable to express any opinion concerning the financial position or operating results of an enterprise if he did not have a working knowledge of commercial law adequate to enable him to interpret the recorded business transactions. For this reason the technical education of the public accountant has always included comprehensive courses in the main branches of commercial law.

Modern-minded lawyers have been stressing the impact of accounting thought upon the present-day development of the law. It was in this sense that A. A. Berle recently spoke of "the newest branch of law, which accounting really is." The interplay of legal concepts and accounting principles in questions constantly coming up for adjudication is receiving increasing attention in law reviews. The cases decided already embrace a wealth of accounting situations. The mass of court decisions in tax cases has resulted in judicial recognition of accounting practices which are slowly becoming formalized into rules of law.

Despite the fact that lawyers and

public accountants are to a large extent working with the same legal material, each profession has its own distinct function to perform. Accountants have studied law, not with the thought of giving legal advice or preparing legal documents, but solely for the purpose of equipping themselves to practice accountancy. In the course of his auditing work, the public accountant examines corporate minutes, purchase orders, sales contracts, real estate leases, employment contracts, profit-sharing license agreements, insurance policies, and innumerable other documents which create legal rights. He examines these documents, not for the purpose of giving legal advice with respect to them, but for the purpose of substantiating entries which may appear on the books of account, thus supporting his opinion as a public accountant.

Very often the accountant in the course of his work may require the opinion of a lawyer; for instance, in reporting on the position of a company, the accountant will want to know the financial significance of litigation in which the company may be involved. Likewise, a lawyer, in drawing an indenture, may require an accountant's advice as to a workable definition of "current assets" and "current liabilities." Such fields are exclusively within the respective professions, where it is advisable for the responsible profession to consult the other. There are also many important activities in which the practices of the two professions necessarily overlap, as for example in tax work, and where they must be ready and willing to aid and cooperate with each other in the best interests of their clients.

Accountancy and law are companion professions which are inevitably interdependent upon each other. There is the ever-present opportunity for active cooperation; there is also the frequent possibility of conflict. It is most important for accountants to have a realistic un-

derstanding of their relationship to the legal profession and the other professions as well. The interests of their clients are best served by harmonious cooperation. The future should bring a fuller appreciation of the mutual relations in the respective fields of work, and as a result the situations in which we can work together effectively should multiply to our greater advantage.

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### From the Mailbag

"... I liked the little personal notes about the ones who wrote the articles. I think that tied it up with the members, and gives an added interest to the articles. . . ."

"... I earnestly believe that inas-much as this is a woman's magazine, why write in the masculine gender? I believe that people should be educated to seeing "she's" as auditors, therefore why not write the articles in feminine gender? Maybe I'm prejudiced. . . ."

"... was glad to help with the formation of the chapter because I felt the need of it for women accountants here. I am close enough to the situation at the university to know the women students need just such an organization to keep them professionally alive and interested in going ahead with their study of accountancy. There are too many people ready to discourage them, left and right, to stay out of the profession and if they can meet with other students and women who are in the field, they feel they can keep their spirits up and keep on plugging. . . ."

"... I think we can truly be proud of our Bulletin. The three featured articles could feel perfectly at home in any accounting publication I know of. . . ."

### The Country Accountant

By NINA P. HUDSON, C. P. A.

One's life as a country accountant is like a beautiful painting—the brightest sunset is made so by the deeper shadows.

The sadness of the pathetic cases! One client, keen, high-strung—knowing his factory business as only he could, having grown with it from the time he sat by a kitchen stove and carded cotton by hand—to that date when sales reached \$60,000 per month—his ambition to save, to be a rich man, was filled with too much hustle in packing sand bags against a swift-running current when his factory-dam broke—now hopelessly insane.

Again—a dear little old lady, with thousands of dollars, bewitched by a young "Uriah Heep," gave everything to him for his medical care for the balance of her life, with the result that she was left alone by him, dying from lack of care, when she broke her hip.

A six-foot Male called upon me, face very thin and very long, with little beady eyes, his attire being sheepskin—cap, coat and galoshes. With a feminine voice, he squeaked, "You help farmers with Taxes?" "Yes," was my answer. So, after aiding on his Farm Report, I was commended with, "Gosh, I thank you, by George! They told me at the Capitol there was a woman on 'tother side the River could look after all the farmers, and, by heck, they're right."

We, in this particular section, were hard-hit by the hurricane, and even now there are vexing questions as to what losses are applicable and for what year.

A new Connecticut state law makes a Town Audit by a C. P. A. or a State Officer a necessity, and this has given opportunity to many accountants to do some very nice work. The town audit is quite a different proposition than a municipal audit, in that the townspeople should be acquainted with every detail of vital interest to a taxpayer.