

5-1924

Editorial

A. P. Richardson

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Richardson, A. P. (1924) "Editorial," *Journal of Accountancy*. Vol. 37: Iss. 5, Article 3.

Available at: <https://egrove.olemiss.edu/jofa/vol37/iss5/3>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

The JOURNAL of ACCOUNTANCY

Official Organ of the AMERICAN INSTITUTE OF ACCOUNTANTS

A. P. RICHARDSON, *Editor*

EDITORIAL

Elijah Watt Sells In the April JOURNAL OF ACCOUNTANCY we noted with an unavoidable brevity but profound sorrow the passing of Elijah Watt Sells. Every reader of this magazine and all others who have the interest of accountancy at heart must have learned of this sad event with a feeling of deep regret, for Mr. Sells was known far and wide throughout the country as one of the chief leaders in that development of accountancy which has characterized the history of the last twenty-five or thirty years. From the very beginning of his participation in public accounting he had the broader vision and the mental capacity which alone make possible true leadership. It is probably safe to say that no one in the entire profession in America was more highly esteemed than he, and his death leaves a gap which cannot be filled. It is, however, something for which to be sincerely thankful that the profession in its early days and in its recent days too enjoyed the stimulus which he imparted to its development. His name will stand enrolled for all time as one of the broadminded and honorable gentlemen who succeeded in bringing from small beginnings into a position of national prominence the vocation in which he was engaged. His experience in railroad accounting and in governmental investigation combined with the knowledge which comes from a wide and diversified public practice gave an authority to his opinions which could scarcely be challenged. The great firm which was built up under the direction of Charles Waldo Haskins and himself is an enduring monument to the excellence of the two partners who were the creators of the firm.

**His Interest
in the Institute** Following the amalgamation in 1905 of the Federation of Accountants and the American Association of Public Accountants Mr. Sells became president of the united body in 1906 and held office through 1907. He was one of the committee appointed in 1915 to draw up the plan of

organization for the American Institute of Accountants and he devoted an enormous amount of time and energy to the fulfillment of the plans then adopted. He was one of the prime movers and one of the largest financial contributors to the endowment fund of the institute, which has had such an enormous effect upon the entire practice of the profession in this country. For many years he was a member of the council and of the executive committee and retained his active interest until the condition of his health made imperative the relinquishment of some of his public activities. Baker University conferred upon Mr. Sells the honorary degree of master of arts and New York University gave him the honorary degree of doctor of commercial science. The giving of the latter degree was accompanied by the following splendid encomium:

“Elijah Watt Sells—for preëminence in a department of human effort in which the prime essentials are accuracy and truth; for the prevision which prompted you to secure for accountancy academic recognition; for distinguished service rendered to local governments, and especially to the government of the United States, both at home and abroad—I confer upon you, by authority of New York University, the degree of doctor of commercial science.”

Mr. Sells was a member of many of the prominent clubs in New York, was a certified public accountant of several states and was the author of some important contributions to the literature of finance and accounting.

New Legislation

The bill introduced in the New York legislature amending the certified public accountant act, which was the subject of comment in the April issue of *THE JOURNAL OF ACCOUNTANCY*, passed both houses of the legislature and at the time of writing this note is before the governor for approval or rejection. In view of the importance of the bill we publish it on another page for the information of our readers. Another important piece of legislation has been written on the statute books of Maryland. This amends the Maryland law and restricts the practice of accountancy on and after July 1, 1924, to certified public accountants of the state of Maryland and to a limited class to be known as public accountants. The latter class is to embrace persons in practice but not certified at the time of the passage of the act. It is therefore limited in number and will gradually be reduced. An interesting feature of the law is the extension of the confidential privilege to communications between an account-

ant and his client. It is not possible to deal comprehensively with the law in this issue of THE JOURNAL OF ACCOUNTANCY, but the matter will be further discussed in June.

Getting Together

The members of every profession and of nearly every trade, in these days when the spirit of altruism is acknowledged to be one of the bases of success, are seeking ways and means to bring about closer fellowship between all men and women engaged in such professions or trades, not only locally but in a wider national sense. The great increase in the number of national associations, societies, institutes and the like is a clear indication that without coördinated effort on the part of all or nearly all the followers of any calling the highest success cannot be achieved. In the realm of accountancy the American Institute of Accountants has done for its profession a great and permanent work. The profession is able to speak with a united voice and to make its voice heard in government, finance, commerce and industry. But a national organization is not sufficient in a country so large as the United States. There must be district organizations which will render possible a communion between the practitioners in the various sections of the country. This finds expression in regional meetings. But the scheme of getting together is carried yet further by the creation of chapters of the institute which are being formed in some of the principal cities or districts. There is, however, a further application of the principle of professional brotherhood which is beginning to find favor and will probably spread as the advantages of it become better known. We refer to what is sometimes called the accountants' round-table or luncheon idea. In many cities, such, for example, as San Francisco, Kansas City, Cleveland and elsewhere, it has become the custom for all the accountants, particularly those who are members of the institute, to arrange to take lunch at the same time and place on at least one day of every week. These luncheon meetings are absolutely informal. No officers are elected or needed. Someone acts as chairman for the day and there is general and friendly discussion of subjects which have come up in the experience of the accountants present. Opinions are asked and generally freely given as to the proper treatment of problems. Accountants are quite rapidly absorbing the idea that it is as blessed to give as to receive, and they are

also finding that their competitors in practice are really pretty decent fellows after all when one comes to know them. It is an old theory that one cannot be much of an enemy to the man with whom one constantly rubs elbows. There are doubtless many exceptions to this rule, but as a general thing it is indubitably true that members of any vocation who meet and commune one with another are less apt to fall into misunderstandings of each other's professional practices than are those who lack personal touch. The Arabs have a very beautiful custom or tradition which makes it impossible for those who have shared their salt to be enemies thereafter. This seems to be one of the things which we more enlightened folk are learning from unexpected sources.

**Working Papers
Must Be Produced**

One of the constantly recurring questions in accountancy practice is the right of possession to the working papers of an accountant. In THE JOURNAL OF ACCOUNTANCY the opinion has been expressed editorially that as a general rule the working papers of an accountant are the accountant's property and cannot be demanded by the client. The final results of investigation of an audit are the property of the client, but the working papers, which are in a sense the workman's tools, are not to be regarded as a portion of the finished labor. It is unfortunate that there have been no court decisions in regard to this particular matter. Lacking a decision there will always be a difference of opinion as to this somewhat vexed matter. Perhaps a friendly suit will be conducted between a client and an accountant in order to reach adjudication by a competent court. A decision relative to the right of revenue agents to require accountants to present working papers has recently been given and this is of much importance to the entire profession. The case was decided by the United States district court for the southern district of Alabama on January 11, 1924. The suit was by the United States against the First National Bank of Mobile and was based upon sections 1308 and 1310 of the revenue act of 1921. The petition set out that a client of the bank had not made full, true and correct statements of his income and that books of the bank containing the accounts of the client would furnish material assistance to the United States in determining the true income of the individual and prayed that the court require the bank officers and employees to testify and the

bank to produce its books and accounts. The petition was granted.

Section 1308 of the revenue act of 1921 provides:

“That the commissioner, for purpose of ascertaining the correctness of any return or for the purpose of making a return where none has been made, is hereby authorized, by any revenue agent or inspector designated by him for that purpose, to examine any books, papers, records, or memoranda bearing upon the matters required to be included in the return, and may require the attendance of the person rendering the return or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises, and may take his testimony with reference to the matter required by law to be included in such return, with power to administer oaths to such person or persons.”

Section 1310 of the revenue act of 1921 provides:

“That if any person is summoned under this act to appear, to testify, or to produce books, papers, or other data, the district court of the United States for the district in which such person resides shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers or other data.”

The act authorizes the commissioner to examine any books, papers, etc., bearing upon the matters required to be included in the return, and to require the attendance of the person making the return or the attendance of any other person having knowledge in the premises. The language of the act may be sufficiently broad to require accountants to furnish their working papers and to testify themselves if requested to do so. It does not appear to restrict the commissioner to such papers and testimony as would be admissible under the rules of evidence. The fact that the communications between accountants and their clients are usually intended to be confidential will not enable accountants to refuse to produce their working papers. “In general, the mere fact that a communication was made in express confidence, or in the implied confidence of a confidential relation, does not create a privilege.” Certain specific relations as attorney and client, physician and patient, husband and wife, deliberations of petit and grand juries and state secrets constitute exceptions to the general rule and are privileged from disclosure. The basis for these exceptions rests upon objective considerations and not upon any honorable obligation. Accordingly, a confidential communication to a clerk, to a trustee, to a commercial agency, to a banker, to a journalist or to any other persons not coming within one of the recognized exceptions is not privileged from disclosure. The act authorizes the commissioner to designate any agent or inspector to examine books, papers, etc.

Should access to records be refused to an agent whom the commissioner has designated, there seems to be no penalty for the person refusing; however, production can be readily compelled by application to a district court. There is, of course, no authority granted by the law to impose secrecy upon the person from whom papers or other data are demanded. Finally, it is possible that particular cases may arise where the papers demanded do not even tend to throw light upon the issue between the taxpayer and the government and in which a court might refuse to require their production.

**Right to Examine
Corporation Books**

The right of stockholders to examine books and records of a corporation is a matter frequently brought to the attention of accountants in the course of their labors. A decision rendered by the supreme court of Illinois in regard to this question has been brought to our notice. It is true that the judgment rendered was reversed owing to the erroneous instruction of the court, but that does not affect the main issue. The plaintiff, a stockholder of the Highways Motor Company, made a request for permission for his attorney to inspect the company's books and records. The request was granted on the condition that no memoranda or copies therefrom should be made. The attorney proceeded to examine the books and made memoranda which led to his being compelled to terminate his inspection. The plaintiff brought suit under that provision of the general corporation act which gives stockholders the right to examine the books of account and provides that any officer or director who denies such access shall be liable to the stockholder. The court said:

"The right of a stockholder to inspect and examine the books and papers of a corporation was recognized at common law and existed in the absence of any statutory provision on the subject. . . . Under the above section of the statute stockholders are given the broad right to examine the books, records and papers of a corporation at reasonable and proper times. The object of the statute is to guarantee to every stockholder, regardless of the amount of his interest, the right to examine into the transactions of his trustees and to protect his interests. The enactment of such statutes has been held by this court to be a proper exercise of the police power of the state and does not deprive the corporation of any vested rights or impair the obligation of any contract. . . . It has been held both under the rule at common law and under the statutes on this subject, that the right of the stockholder to inspect and examine the books and papers of a corporation permits him to make abstracts, memoranda or copies thereof. The right rests, as does the similar right to an examination, upon the broad ground that the business of the corporation is not the business of the officers exclusively but is the business of the

stockholders. To deny a stockholder the right to make memoranda and copies from the records virtually amounts to a denial of the right to inspect and examine the books and papers of the corporation."

**Profession and
Business**

A bright young man called at the office of this magazine the other day and requested permission to see a list of all the accounting firms engaged in practice in the city of New York. He represented an investment house and explained with a charming naïveté that he was intending to send out to the accounting firms a remarkable proposition. It was to the effect that those who in the course of their practice found it necessary to recommend plans for financing or refinancing should communicate with the investment house aforesaid. The house would then investigate the case and if it seemed desirable would undertake to provide a plan of financial adjustment which would be profitable to everyone concerned—it would be profitable even to the accountant, on a strictly commission basis. Our visitor was utterly astonished and dismayed when shown rule 4 of the rules of professional conduct of the institute which reads as follows:

"No member or associate shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to others as an incident of his services to clients."

It was something new to find an investment house imbued with the thought that any professional man would accept a commission of this kind. It is not altogether unusual, unfortunately, to hear of stationery concerns and even of other businesses which are ready to offer compensation of this nature. A recent circular received by a member of the institute reminds the reader that "we buy accounts receivable" and "should you find it within the scope of your duty to your clients to suggest a consultation with us we shall of course be most willing to show our appreciation of your efforts in our behalf in a tangible satisfactory-to-you manner." This sort of thing is due merely to ignorance. It is distressing, however, to find a financial house of some standing with so small an appreciation of the difference between right and wrong, between profession and business, as was indicated by the visit of our bright young man.

**Coöperation
with Legislators**

An interim commission appointed by the last legislature of Minnesota for the purpose of investigating state departments and state institutions and to make a report to the next legislature, which convenes in 1925, held a meeting in the state capitol at St. Paul during the time of the last C. P. A. examinations. The members of the commission visited the examination room and made inquiries in regard to the state board of accountancy. There was a conference upon the subject and at the conclusion the members of the commission indicated that they would be much pleased to have the assistance and coöperation of accountants in their surveys of various departments. This indicates the benefit of ocular demonstration. There are states in which a commission of legislators might possibly be unfamiliar with the labors of certified public accountant examiners. It is conceivable that some legislators in remote and benighted states even at this date do not have a sufficient knowledge of public accountancy. However, it is gratifying that in Minnesota there is to be coöperation between accountants and legislators. The Minnesota chapter of the institute has appointed a committee to coöperate with the interim commission and there is no doubt whatever that the plan will be fruitful.

We Advance

In presenting this issue of THE JOURNAL OF ACCOUNTANCY to our readers it is probably unnecessary to draw attention to the great improvement in the form of the magazine. For many years it has been the tendency of magazines to depart from what is technically known as the side-stitched in favor of the sewn binding. There are difficulties which are involved in the change, but modern development of sewing machines makes it now possible to produce an edition binding without protracted delays. It is very much more satisfactory to the reader to have a magazine which will open easily at any page and remain open than it is to struggle as one must with the inflexible publication of the old-fashioned kind. In this issue also we depart from linotype composition and adopt the more clearly legible monotype. These improvements are in line with the general policy of the magazine to provide an increasingly attractive and valuable production and we trust that our readers will appreciate the improved appearance and convenience of the magazine.