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**Accounting Profession's New Opportunity, Text of an Address  
Presented February 27, 1945, at a Meeting of the Philadelphia  
Chapter of the Pennsylvania Institute of Certified Public  
Accountants**

John L. Carey

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Text of an Address Presented February 27, 1945,  
by John L. Carey of New York, secretary of the  
American Institute of Accountants, at a meeting  
of the Philadelphia Chapter of the Pennsylvania  
Institute of Certified Public Accountants.

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### THE ACCOUNTING PROFESSION'S NEW OPPORTUNITY

The great new opportunity of the accounting profession in the United States is to become the universally recognized and accepted authority on the measurement of income.

This is only another way of saying that the profession has a great opportunity to help save the private-enterprise system in this country; to minimize social strife; to preserve the advantages of both capitalism and government regulation. If it seizes this opportunity its members may enjoy a prominence and a scope of activity beyond their wildest dreams.

Does all this sound extravagant? Let's consider the signs of the times.

The accounting profession is just attaining its full stature at a time when great social and economic changes are re-shaping the world. The deep, irresistible trend is to raise the living standards of the masses of people. They know that the things they want can be produced in sufficient quantity for all. They have learned their own power. In this country it is being exercised through the democratic system, at the ballot-box.

Since our political system is flexible, we have not blown up, as some countries have where the irresistible force of the common people's aspirations have met the immovable body of vested interest. But we have definitely changed our way of doing things, and the capitalistic economy we knew twenty years ago has been altered almost beyond recognition.

The process of change has not ended. There are plenty of people willing, even eager, to introduce more and more government control, government planning, government ownership. There are bills now in Congress providing for regulation of all corporations; to provide a national budget of production and jobs (under which government would do what industry left undone); to create more T.V.A.'s; and so on. How will government use surplus war plants? Will the R.F.C. and other lending agencies dominate the banking structure? The extent to which taxation may be used for social purposes is uncertain. It will be a great temptation to the planners to preserve the wartime structure of price control, material control, production control, wage control, as the basis for an effort to create a Utopian society. No one knows just how far we will go--or how much further we will go--toward socialism.

But American capitalism has one trump card, and it is a big one. It has demonstrated beyond challenge that it can produce more goods and better goods, at lower prices, than any other system has been able to do. Production is the magic word. Production means goods the people want. Production means jobs the people want.

There are signs that the Americans are reluctant to entrust the production job to the government. There seems to be an inner conviction that politics and efficient management don't mix. There seems to be a growing question, too: while it is considered desirable for government to police business in the interests of the people, who will police the policeman if he takes over the business himself? The Americans distrust too much power, wherever it is lodged.

What has all this to do with accounting? Just this. There are good grounds for believing that private capital and private management will be given a chance to show what they can do after the war, but with government looking closely over their shoulders to see to it that the people get their fair share of the fruits of production.

Who are the people? They fall into four broad categories: owners of productive wealth (capital) (or stockholders), managers, workers, and consumers. What are the fruits of production? They are income -- income from the application of labor to capital. Income is distributed to owners through profits (dividends), to managers through salaries and bonuses, to workers through wages, to consumers through prices, and to all the people, via the government's services, through taxes.

The measurement of income and its proper allocation and distribution contribute a problem of vital interest to all segments of our economy. On its solution may depend the future of private enterprise. It will be the biggest accounting job of all time.

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Accounting is the process through which income is measured. It is the language through which the relationships between costs, prices and profits are expressed. But accounting is an art, not, as many misunderstand it to be, an exact science. It must be applied with intelligence and perception; it cannot be applied successfully in a routine, mechanical way. Skilled and objective judgment is an indispensable component of sound accounting. Parties with adverse interests can easily disagree on what is income for a year, because their interests color their judgment.

That is one reason why the certified public accountant was born. The community needed someone who was skilled in accounts, so he could apply accounting principles properly to specific situations, and who at the same time was independent of the parties at interest, so that he could use his judgment objectively.

Financial statements certified by certified public accountants have long been accepted as prima facie reliable reports of business transactions in the field of financial reporting by management to stockholders, and by borrowers to bank credit grantors. It has recently been suggested publicly by a taxpayers' association that much strife and travail could be avoided if the government would accept statements of income certified by certified public accountants as a basis for income taxes, as is now done in Canada. Cases have been reported in which unions and management groups have agreed to accept statements certified by certified public accountants as a basis for wage negotiations. Government agencies charged with the duty of protecting consumers might come to accept such statements as a basis for judging the fairness of rates and prices. Regulatory bodies may rely, as the SEC does, on financial statements certified by certified public accountants.

If such acceptance of the certified public accountant--as the impartial, expert, judge of the elusive concept of income--became universal; if no one felt that he could gain anything by trying to go beyond figures a certified public accountant was willing to certify--what a long step would have been taken toward social harmony! Management, labor, stockholder, consumer, and government would have an agreed-upon factual basis on which

to argue their claims for shares in the fruits of production. Most controversies spring from disagreement over facts. If the facts are agreed upon most disputes can be settled reasonably.

If the accounting profession cannot fill this role, the alternative is discouraging--incessant conflict between government, business, labor and consumers as to what income really is: business audited to death by government examiners, charges and counter-charges, recrimination and bitterness, ending perhaps in a breakdown of our system.

#### What Needs to be Done

If it be accepted that greatly enlarged opportunity will confront the accounting profession, then the question arises whether the certified public accountants of the United States will be able to accept it.

The profession has come a long way in the past twenty-five years. In that period the number of certified public accountants has grown from 5,000 to 25,000. In the words of George O. May, "accounting has developed from a service department of business to become a social force".

The accounting profession in this country has passed through its infancy and adolescence, and has attained maturity. But it is not yet in the full flower of manhood -- its prime of life is still before it.

It has developed (1) an educational background in the colleges and universities; (2) a code of ethics; (3) a state-granted certificate and (4) a system of professional examinations; (5) a professional literature; (6) the beginnings of a research program; (7) public recognition of its purposes and abilities;

(8) strong state and national professional societies.

But this is only a good beginning, a lot more remains to be done if the profession is to move up to a preeminent position in our economy.

In the first place, the profession needs to increase its personnel. The newcomers, if they are to be able to assume increased responsibilities and maintain prominent positions, must be of the highest caliber, intellectually and morally. The American Institute of Accountants is now engaged in a research project in selection of accounting personnel, which it is hoped will lead to a plan for recruitment of high-grade men and women; and the construction of tests which will indicate qualifications for success in professional accounting work.

Accounting education must receive the serious attention of the profession. The practitioners should help the teachers decide what it is most advantageous to teach students of accounting, and should also encourage the expansion of university facilities for both undergraduate and postgraduate work in this field. Adult education should not be overlooked. Facilities must be provided for education of war veterans. Staff training programs within accounting firms, and students' societies or study groups for non-certified staff assistants, organized under the auspices of state societies, need to be established on a broader scale. The American Institute has recently appointed a full-time director of education as a member of its headquarters staff, and, with the appropriate committees, he is developing a long-range educational program.

The profession must take a leading part in developing as rapidly as possible, and encouraging the acceptance of, accounting principles which may serve as universal standards, and greatly increase comparability and intelligibility of financial statements of individual companies. The Institute's committee on accounting procedure and its research department, now strengthened by appointment of a full-time director, are working on this problem with all possible speed.

New forms of financial statements will undoubtedly have to be devised to serve the different purposes of the several economic interests. The conventional financial statement was designed to show profit to the owner or the stockholder. In such accounting, wages are a cost; but to the laborer, wages are his share of the business income. For purposes of wage negotiations, accounting data different from that in the ordinary income statement may be necessary. So it may be with accounting for consumers and for government agencies which have varied purposes. It has already been suggested in some well-informed quarters that the balance sheet should be abandoned and its place taken by some other type of statement which would be more readily intelligible to investors. Many companies have tried in recent years to streamline their income statements so that stockholders would find them easier to understand. The Institute's research department is also studying this problem.

Auditing is the means by which the certified public accountant obtains the information on which his opinion or certificate is based. High standards of auditing must be maintained if the public is to have confidence in that certificate. More scientific methods of auditing may have to be devised to meet new needs. As your president, M. C. Conick, in a recent issue of



The Spokesman said, auditing has emerged from the "tick and holler" stage. Some accountants advocate development of analytical methods. Perhaps greater attention will be given to the statistical science in refining methods of selective testing and sampling. The Institute's committee on auditing procedure is constantly giving attention to these matters.

Independence is the keystone of the structure which will support the certified public accountant in his new position of prominence. Just as important as public confidence in his technical ability is the confidence that he will "call them as he sees them" without fear or favor. Disinterested, impartial judgment is what is so sorely needed by the public. Everything possible should be done to strengthen public confidence in the accountant's independence, and everything which would weaken it should be sedulously avoided. Strict observance of the rules of professional conduct of the Institute and the state societies will go a long way to fortify belief in the accountant's independence. John Zebley of Philadelphia, past president of the Pennsylvania Institute, is chairman of an American Institute committee which is studying the subject of independence.

The accounting profession must continue to work in close cooperation with other groups. Cost accountants, controllers, and credit grantors, are interested in various aspects of accounting, and have much in common with the professional certified public accountant. Accountants often have to work shoulder to shoulder with lawyers, and under modern business conditions accounting and law seem almost complementary professions. The National Conference of Lawyers and Certified Public Accountants,

consisting of five representatives of the American Bar Association and five representatives of the American Institute of Accountants, promises to facilitate greatly the development of close cooperative relations between the two professions. The head of the lawyers' delegation in the Conference is David Maxwell, of Philadelphia. Cooperation with government agencies is also desirable. Accountants should study the jobs the various agencies have been given to do, and help them to do them with as little friction and controversy as possible. Accounting is an important instrument in regulation, and the regulatory agencies generally have welcomed the advice and assistance of the accounting profession in solving accounting problems. The Securities and Exchange Commission here in Philadelphia is the scene of frequent visits of officers and committees of the American Institute of Accountants.

More research in accounting is needed. Perhaps the need could be met in part in the schools of commerce and great universities like the University of Pennsylvania, whose research programs might be planned in cooperation with committees of the state societies. If more accountants would write for publication, the exchange of ideas would be facilitated and solution of common problems would be hastened. The Journal of Accountancy in the past ten years has steadily enlarged in size and in circulation. The Accounting Review features an increasing number of members of the profession. Perhaps the state society bulletins, some of which have already assumed the proportion of small magazines, will grow to the point where they will become outlets for a larger number of articles on technical and professional subjects.

One objective of research and writing should be to clarify the relationship of accounting with other fields, such as law, economics, and other social sciences. Only with such clarification can accounting properly fulfill its major purposes in the social organization. As an individual accountant works up in the profession he must become more than a technician. He learns to deal with questions of policy. To get to the top, he should understand the relationship of his specialty -- say, auditing, or taxes, or cost accounting -- to the whole field of accounting; and the relationship of accounting to the whole field of business; and the relationship of business to the whole economic and social structure of our nation and the rest of the world. Similarly, as the profession itself climbs up from the status of a service department to the level where its views are invited on questions of high policy, its members must perceive these relationships.

Accountants must participate in public affairs if they are to be recognized as trusted public servants and leaders. Somehow practicing certified public accountants must find time to work with civic, state, and national groups which are dealing with problems which accounting can help to solve. The American Institute in recent years has greatly increased its activity in this direction. Within the past few months, for example, its representatives have sat down to discuss matters of common interest with a group of members of the House Ways and Means Committee, with the Securities & Exchange Commission, with representatives of the Joint Congressional Committee on Reduction of Nonessential Federal Expenditures, with representatives of the American Bar Association, with a group of federal government accountants, with officials of the Robert Morris Associates, with representatives

11-Carey

of the War Manpower Commission, the Office of Contract Settlement, the U. S. Department of State, with officials of the Treasury, Bureau, and Joint Committee Staff, the House Committee on Small Business, Bureau of Economic Research, officers of the National Association of Manufacturers, the Veterans' Administration, the Administrator of the Wage and Hour Division, and officers of the Army and Navy. It seems wholly desirable that more certified public accountants should make themselves available to hold public offices for which they are well qualified.

Testimony before Congressional committees, which Institute representatives have given in recent years on public questions in which accounting is involved, has been helpful to all concerned. Similar testimony could often be provided by state societies before state legislatures. Appearance by accounting societies as friend of the court in litigation involving important accounting questions, such as the case in which the American Institute appeared before the United States Supreme Court last year, is also helpful. Expert testimony by individual accountants in litigation or proceedings before regulatory bodies has recently clarified major accounting problems. Improvement of the accounting methods of government itself is a distinct public service. At the invitation of Senator Byrd, the American Institute has recently formed a committee which will formulate recommendations for improvement of the Federal Government methods of accounting and auditing. Similar work has been done by a number of state societies.

In outlining some of the principal things that need to be done if the accounting profession is to succeed in its new opportunity, I have in effect outlined some of the major items in

the current program of the American Institute of Accountants. The Institute's 40 committees and its full-time staff of more than 40 persons are working hard and continuously on all these problems. Many of the state societies are working also on some or all of these same matters. But so much more needs to be done, so many problems remain unsolved, so much of the work could well be expanded, that we can't help looking around for ways to speed up progress. Organization and coordination of the efforts of all the professional societies would undoubtedly help. The state societies and the Institute now work in complete harmony and with close cooperation on specific individual projects, but the thought is growing that their entire programs could be integrated, that they could keep in almost daily touch with each other, that they could exchange information more rapidly, that each could get greater benefits from what the other is doing. A plan of coordination of activities of state and national organizations, drafted last year by an Institute committee, is now under the consideration of a special committee of the Advisory Council of State Society Presidents. A definite detailed recommendation is expected by next spring or fall.

#### Conclusion

The certified public accountant has outgrown the humorous appellation of a bookkeeper out of a job. He is now accepted throughout the country as a member of a useful and honorable profession, though it is often referred to by the slightly derogatory phrase--"one of the newer professions". It seems to me that the opportunity will soon confront it to step up to an even higher level--to assume a place of major responsibility in the front rank of our economy. If he is to seize it and hold it, there is a lot of work to be done, and there is not much time to lose.