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THE FUTURE OF PROFESSIONAL ACCOUNTANCY

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: I have read with interest Mr. Nissley's article in the February issue of THE JOURNAL OF ACCOUNTANCY on "The future of professional accountancy."

The author's analysis of the present field of the professional accountant and his projection of the extent to which, and the directions in which, the practitioner will be influenced and affected by present economic, political, and social trends should be most helpful to any practitioner who has not had the time or the facilities for making such a study.

I had rather hoped, however, that the author would go on from this point to a discussion of the principles and practices that the profession might follow to prepare itself for the enlargement of opportunity and responsibility which he predicted. And I had rather expected that he would discuss at least briefly the importance of such matters as adequate academic training for the profession, scientific personnel selection, and the development of that sort of attitude which would save the profession from the not infrequently stated, and not always unjust, criticism that we yield too much to the demands of management.

The author's suggestion that the auditors of an enterprise should be selected by the enterprise's stockholders is a most excellent one. I have long cherished the hope that the profession might some day make a real effort in this direction.

Yours truly,

T. COLEMAN ANDREWS.

ACCOUNTANTS, APPRAISERS AND THE S.E.C.

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: As a regular reader of THE JOURNAL OF ACCOUNTANCY, I can second Mr. May's recommendation that "readers initiate discussion of points on which they do not find themselves in complete agreement." I find that Mr. Carman G. Blough's paper in the January issue presents excellent material as a basis for discussion of the relationship between accountants and appraisers, and their joint contributions and responsibilities in registration statements under the securities acts of 1933 and 1934.

I have frequently expressed the opinion that, where appraiser's findings are embodied in financial statements, the accountant and the appraiser have a joint responsibility to see that those findings are properly reconciled with accounting facts. Appraiser's reports are frequently misinterpreted through lack of understanding of their scope and purpose. Such misunderstanding should occur with less frequency since the recent publication of *Basic Standards of Appraisal Practice and Procedure* by the Association of Appraisal Executives. This booklet was prepared after long consideration and many conferences, and is designed to set forth the scope and limitations of appraisal service.

In six of the ten points of criticism summarized by Mr. Blough in his article, questions of valuation of fixed assets were involved. These were as follows:

(1) Fixed assets were stated . . . at amounts . . . par value of stock . . . ; whereas, the value of such assets was found to be much less.

(2) Stock was issued for fixed assets . . . the nominal value of these shares was included in the figure at which the fixed assets were carried. . . .

(3) Fixed assets were stated on the balance-sheet at appraised values that were found to be grossly overstated.

(4) Fixed assets, as carried in the balance-sheet, included an amount equal to the par value of stock issued to the seller of such assets in consideration for his agreement to reconstruct certain property included therein.

(5) Fixed assets, as stated, included amounts equal to the par value of stock issued to promoters for services as such.

(6) Fixed assets included lease and option agreements without disclosing their nature.

Of the remaining points, three involve tangible or intangible assets that might come within the review of the appraiser.

Conference between the appraiser and the accountant might have brought these matters out of the "twilight zone" inferred by the following statement of Mr. Blough: "In some he (the accountant) had no access to facts that would have permitted him to give proper treatment to the items in question. In others the scope of his duties did not include a judgment as to the propriety of the values fixed by the directors."

Similarly, most of the eight "representative cases indicating the nature of the accounting problems of the commission" involved appraisal as well as accounting problems, as illustrated by the two cases described as follows:

"Asset experimental expenses" for which accounting principles require "that where the results of experimentation, such as has been carried on here, are unsuccessful, the respective development costs should be written off as a loss" and "goodwill based on actual profits can not be contended to exist. Neither has any reasonable demonstration of future possible or prospective 'super-profits' been made. Here speculation as to the existence of intangible values is not sufficient."

A company "created a reserve for plant retirements by charges to paid-in surplus and . . . wrote off these against properties retired," where "the facts in the case indicated that depreciation charges in previous years had been insufficient to provide for the normal retirement of the properties."

It is not necessary here to refer to the problems in further detail or describe the appraisal procedure appropriate in such cases. The point is that accountants and appraisers have a joint responsibility in meeting such problems.

The appraiser bases his findings primarily upon his inspection, inventory and observation of the properties. He may measure the value of these properties in terms of historical costs or reproduction costs, or he may use the actual costs if these are available or applicable. The result, however, ought not to be inconsistent with the accounting records. There appears to be no justification for an unreconciled difference between the property facts on the one hand and asset accounts and charges entering into the operating accounts, on the other hand. If an inconsistency does occur, there should be full coöperation between accountant and appraiser to the end that some reasonable reconciliation be made. The time seems to have passed when an accountant could properly avoid or transfer an unallocated responsibility by use of the simple reference "Appraised at ——— by ———." The appraiser should withhold consent from such abbreviated references to his report.

I believe that accountants should take some initiative and responsibility in these matters for the protection of the integrity of their own reports.

Yours truly,

LYLE H. OLSON.

MUNICIPAL ACCOUNTING

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: Substantial progress in municipal accounting has been made during the past three years, largely through the efforts of the National Committee on Municipal Accounting. The contribution of the American Institute of Accountants has been notable through the efforts of Lloyd Morey, vice-chairman of the national committee and representative of the American Institute of Accountants. Further contributions have been made by George P. Ellis, who represented the American Society of Certified Public Accountants on the central committee and who now represents the American Institute. Accordingly, your association has a direct interest in the further work of this group. The National Committee on Municipal Accounting desires to concentrate its efforts now in promoting into actual use the standards it has already developed.

Each state society might arrange to have a meeting dealing substantially with the subject of municipal accounting. In such cases, the national committee will be glad to make available to the chapters some speaker of national prominence who is eminently qualified to deal with the subject. It would be helpful for both the members of your association and certain local officials if the latter might be invited to attend such chapter meetings as guests of the state chapter.

The American Institute probably has certain members in each state who are giving special attention to legislation appertaining to accounting. Many of the bills in which they have an interest will affect state or muncipal accounting. Your state representatives might, therefore, bring to your attention any such bills. If further advice is needed as to the propriety of the proposals, the staff of the National Committee on Municipal Accounting would be glad to study the bills and make a report to your representatives.

The best way to improve the financial reports submitted by municipalities is to give them a careful study and make concrete suggestions for their improvement. The National Committee on Municipal Accounting has already taken such action on at least fifty municipal reports. Such criticisms will be made at the request of public officials. It might be helpful if each member of the American Institute should investigate the annual financial report of his municipality and suggest that the appropriate municipal officials send it to the national committee for study. Furthermore, many members of the Institute make municipal audits. In some cases they might like to have suggestions as to the form of the report or certain comments which they may wish to make. Certainly they will want to prepare the reports substantially in accordance with the recommendations contained in *Municipal Accounting Statements*, the last publication of the National Committee on Municipal Accounting, a review of which will be found in the February, 1937, issue of THE JOURNAL OF ACCOUNTANCY. The national committee is anxious to coöperate with private accountants who are engaged in governmental audits.

In addition to *Municipal Accounting Statements*, the National Committee on Municipal Accounting has published separately bulletins dealing with *Municipal Accounting Terminology*, *Municipal Funds and Their Balance Sheets*, *A Bibliography of Municipal Accounting* and *Suggested Procedure for a Detailed Municipal Audit.*

I hope that you will bring to the attention of your members the activities and services of the committee in this important field.

Yours truly,

CARL H. CHATTERS.