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Qualifications and Responsibilities of Public Accountants*

BY J. E. MASTERS, C.P.A.

It is safe, perhaps, to assume that a large majority of educated and well-informed business people have some knowledge of the accounting profession, but it is, however, a fact that this knowledge is more or less vague in the minds of a great many people.

It is not difficult to understand why the accounting profession is not more widely known and understood by the general public when we consider that the total membership of the Institute of Accountants in the United States of America is only about 1,200 and that ten years ago the membership of its predecessor, the American Association of Public Accountants, was approximately half that number. In view of this relatively small number of accountants it is interesting to note that they and their work are as widely known as they are, and it seems fair to conclude that the creditable position occupied by accountancy in the business world is due more to quality than to quantity. In an address at the annual convention of the American Association of Public Accountants held in Boston in September, 1913, the late Francis B. Sears said: "The bankers, the merchants, the manufacturers, all recognize the importance of your work, and each year shows their increasing reliance upon your services." It is gratifying to those of us engaged in the accounting profession, and at the same time impresses us with our responsibilities to hear and read expressions of this kind from those in other walks of life. Perhaps it is well to mention at this point that the term accountant is used as applying primarily to those in public practice and not to the many other classes—for example, those in charge of the accounts of corporations, of governments, etc.

RESPONSIBILITY OF THE PUBLIC ACCOUNTANT

Taking up the responsibility of the public accountant first will give a general idea of the necessary qualifications and draw attention to the importance of the qualifications. With the rapidly

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increasing wealth and business of this country in recent years, and the concentration of capital in the development of many important industries, has come increased responsibility for the public accountant. This responsibility may be said to be divided as between those things for which he is responsible and those people to whom he is responsible.

First of all, the accountant is responsible for the faithful, conscientious and efficient performance of his work to a degree which is equaled by few and surpassed by none of the professions. That this is true will be realized when we consider that the failure to carry out his work in strict compliance with the highest ideals and standards of duty may mean the financial ruin of his client and, indirectly, serious loss to those persons dependent, wholly and partly, upon the success of the client.

The legal responsibility of the accountant in this country has not been decided by the courts, but in England there have been many cases by which the legal responsibility has been fairly well determined. While there have been no court decisions of importance bearing upon the subject in this country, the successful practising accountant has not lacked appreciation of his responsibility nor labored any less earnestly to set and maintain as high standards as exist elsewhere.

In the case of the legal and medical professions the responsibility is almost exclusively to the client and the patient, but the public accountant is responsible not only to the client, but also to the general investing public. It is not sufficient for the public accountant to serve conscientiously and efficiently the client who employs him, but he must constantly keep in mind his responsibility to others who are entitled to know the truth and the whole truth appertaining to the client's business. The natural inclination in our associations and dealings with our fellow men is to cater to and befriend the person who brings the grist to the mill, but the accountant's responsibility in many instances requires that he deviate from this kindly and usual course and disclose facts and information contrary to the wishes of the client and, in some cases, at the expense of the client's goodwill. To meet such demands requires the keenest appreciation of the responsibility assumed and absolutely unselfish devotion to duty regardless of

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personal sacrifice or possible pecuniary loss, ever keeping in mind that above all else the interests of the client and the public should have the first and highest consideration.

The relations between the accountant and his client are close and confidential. Of necessity the accountant comes into possession of private and personal information regarding the affairs of the client and the business, and his responsibility to guard zealously the information and facts of such confidential and important nature is great. The improper disclosure of confidential information is not only an abuse of confidence placed in the accountant, but may result in immeasurable detriment to the client in various ways.

The utmost discretion on the part of the accountant is necessary in deciding, in many instances, what information should be disclosed and to whom, and it is not always an easy matter to be absolutely certain who is entitled to information and facts of which the accountant comes into possession. For instance, an examination may be made of a concern on behalf of a creditor who may be a competitor, yet is entitled to know the financial position of the concern examined, but it would obviously be unfair to the concern and possibly result in serious loss if other information in regard to the business, such as the names of customers, prices of goods, secret processes, etc., were disclosed to the competitor.

On the other hand, in the case of an examination on behalf of a prospective purchaser of a business, it would in most cases be quite proper to obtain and submit all information as to the characteristics of the business which would be useful to the purchaser in determining the price he would pay or the desirability of the purchase.

In cases where audits and examinations are made primarily for verifying and setting forth to the stockholders of corporations their financial position and the results of operations, the information to be disclosed should be restricted to the material facts and figures necessary to show the true financial position—and again the disclosing of information concerning the company that might be of peculiar advantage to a competitor must be carefully avoided. In deciding what information should be disclosed and

what withheld careful consideration must be given to the question of whether the withholding of certain facts and data may result in misrepresentation of the financial position or results of an undertaking.

In other cases where the accountant's services are desired on behalf of the management only, to assist in the successful conduct of the business, there is usually no restriction in regard to the information appertaining to the business to be disclosed to the management; in fact, the accountant is responsible in many cases for bringing to attention matters which may not be pleasing and criticising the management, should conditions seem to warrant it.

The manner in which the accountant sets forth the results of his audits and investigations is important, since he assumes the responsibility for stating accounts and reporting in ways that will not be misleading, setting forth all material facts upon the situation, at the same time eliminating all unnecessary detail. The client has neither the time nor inclination to wade through a long report, given over largely to uninteresting and possibly irrelevant comments, in order to get a few important points. The accountant is responsible for separating the grain from the chaff, the important data from the irrelevant, and presenting the result concisely but not in unmistakable terms.

It might be thought by those not familiar with the work of the accountant that his responsibility is confined to the mathematical accuracy of figures appearing in books and records under examination, but this is far from the case, as there are other highly important things to be considered. For instance, it might be found that in the books of a concern with wasting capital assets such as buildings, machinery and equipment, the ordinary repairs and maintenance expenditures were charged to these asset accounts and no corresponding charge made against earnings. The amounts might be entirely correct, the books accurately posted and in balance, yet the earnings of the concern and the financial position, as shown by the books alone, would be incorrect; and in an audit of the accounts the accountant is responsible for discovering such conditions. Errors in principle in the keeping of accounts may be quite as harmful in their results as

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dishonesty on the part of those responsible therefor and the detection of such errors is quite apart from the mathematical accuracy of the accounts.

The accountant is responsible, to some degree, for disclosing things that may not appear on the books of the company, whether they are unintentionally or fraudulently concealed. The item of contingent liability is a striking example, as it is often the case that this is not shown in the financial books in any particular account, the proprietor having overlooked or not appreciated the importance of this item when considering the financial position. How far the accountant is responsible for finding items not on the books depends somewhat upon the particular circumstances and conditions in each case, but he is at least responsible for taking all reasonable steps and exercising due care and judgment in ascertaining such items.

As to the value of capital assets of a concern, custom and reason have to some degree limited the responsibility of the accountant, it being generally understood that he is not an appraiser. He is responsible, however, for showing clearly in the balance sheet the basis upon which assets are stated, that is, whether at cost or market values, etc.

There is some difference of opinion among practising accountants in regard to their responsibility for the quantities in physical inventories, some few holding the view that they should actually take the inventories. I believe that only in special cases should the accountant assume full responsibility for the quantities, on the ground that he cannot reasonably be expected to have an intimate knowledge of all the technicalities sometimes required to count and properly to classify goods on hand, particularly where they consist of a variety of product in varying stages of manufacture.

Persons devoting their entire time to any particular business or branch of business are better qualified to take the inventories correctly. While the accountant might be able to count and list goods on hand as rapidly as the employees of a concern, the identification of varying grades and classes of goods leading up to the pricing and valuing must be accurate, and in this respect the accountant is not as well qualified as others, and therefore should not, ordinarily, presume to be nor assume the responsi-

bility. Of course he must take all reasonable and practicable steps to satisfy himself that the inventory has been carefully and honestly taken and thoroughly verify prices, extensions and footings.

The question arises as to the accountant's responsibility in assuming to do that for which he is not specially qualified. To the ambitious and progressive accountant, generally well qualified and with confidence in himself, there is some temptation to undertake whatever his clients request, and it is when asked to perform such service, for which he is not qualified, that he is responsible for the course pursued. The seriousness of deciding wisely and fairly both to the client and himself can readily be appreciated, for it requires no stretch of imagination to understand that if the accountant is asked to plan and lay out the machinery in a manufacturing plant he cannot be as well qualified to perform such service as the mill engineer or superintendent; and should he comply with the request of his client and attempt such work he is assuming and is responsible for something for which he is not qualified. The old axiom, "that which is worth doing is worth doing well" applies in this case and it is my belief that in the comparatively short period of man's life if he is able to fit himself properly as an accountant and follows the profession there is not sufficient time for him also to become a trained engineer as well.

During the last few years the efficiency engineer has come into public notice and in some instances accountants have undertaken this work in conjunction with the accounting practice, but to my mind there is serious doubt of the wisdom of this course. The two professions are closely allied and the dividing line is difficult to establish. "When in doubt pursue the sure course." This principle applied in this case would result in the accountant's confining his efforts to those services for which he is specially fitted.

Generally speaking, all individuals are responsible for what they utter or write, but the accountant may be said to be in a peculiar position as regards this because he is in possession of a vast amount of information and facts concerning other people's affairs, more particularly those of a confidential and personal character, and if this is intentionally or unintentionally, directly or indirectly, improperly disclosed the result is in many cases

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much more harmful to others than to himself. It may only require the misspoken word or thoughtless action to bring about serious results.

I have in mind a personal experience which will illustrate this point. In an audit of a bank I was seen entering the building after banking hours by one of the depositors who, knowing that I was an accountant, imagined that something was wrong with the bank and hastened to inquire of another depositor if this was true. Fortunately the man who saw me entering the bank inquired of me the following morning as to the situation, when I was able to relieve him of his anxiety as to the financial position of the bank and advise him that our audit was only the usual verification. It will be seen that I narrowly escaped quite innocently starting a run on the bank, and while I would have been entirely blameless it might have been said that in a sense I was responsible therefor.

We are continually reminded in various ways of our responsibility, but we are brought face to face with it in a special way when signing our certificates to financial accounts which are distributed to stockholders and investors. The seriousness is unmistakably impressed upon us when signing our names to statements upon which may rest such far-reaching good or ill and will redound either to the signer's credit or discredit.

That accountants realize their responsibility in this respect is shown by the improvement in the form of the usual auditor's certificate and financial statement, more especially in the wording used. It would appear, however, that the general business public does not give due consideration many times to what is said in the accountant's certificate and the explanations that are made in the captions of the financial accounts. Too often if the accountant's signature is seen on the certificate to a balance sheet the public assumes that everything is in order without taking the precaution to read the certificate or the explanations.

To sum up the accountant's responsibility in general terms, I should like to quote what has been said by A. Lowes Dickinson :

But the public accountant has only one duty to his client and to the public, and that is to disclose to him or for him the truth. . . . so far as his abilities or special training enable him to ascertain it. No legal quibble will save him from moral condemnation if he fails in his duty. No juggling with words or phrases will absolve him from responsibility,

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moral and often legal, for results which he has reason to know are not what they seem to be or which, having regard to his special training in public affairs and accounts relating thereto, he ought to have known did not represent the facts. Errors there may be and must be, and for errors made after full and proper precautions are taken and due care exercised no responsibility will lie. But there is no profession in which the results of careless errors or misstatements more certainly bring retribution.

QUALIFICATIONS

Having given at least some idea of the responsibility of the public accountant, it seems obvious that one must have special training and attainments in order to fulfil the obligations assumed with satisfaction to his clients, the public and himself. Generally speaking, the qualifications may be divided into three classes: personal qualities, education, practical experience. Taking up these qualifications in the order named—which, however, should not be considered the order of their relative importance, but rather the logical arrangement—it is evident that of the first, personal qualities, some are inherent rather than acquired.

In the first place no person should undertake the work who has not in the beginning a sterling character, the highest regard for honesty, a quickened conscience and a special liking for the work. That all the other virtues are desirable goes without saying, but without those specified it seems a betrayal of the confidence of others to hold oneself out as practising a profession which involves the absolute confidence of clients in unfolding private and personal matters.

There are some other qualities which are highly desirable although perhaps not absolutely necessary, such as a pleasing personality, a tactful and gracious manner and unselfish disposition—particularly the latter, as the accounting profession is not different from the other professions in that the reward cannot be measured entirely by material standards.

The educational qualifications may be said to be more or less elastic. It is a fact that some of the ablest and most successful practising accountants are not college men, but this is doubtless due largely to the fact that when these men were preparing for the profession educational opportunities were not as good as they are to-day and there were many more difficulties in the way of taking advantage of those that were offered. But I venture to say that few practising accountants who have not had a college

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education do not consider it their misfortune. The accountant should have a college education if possible, and at least the equivalent of a high school education supplemented by special studies in mathematics, economics, English, political economy and commercial law. The primary value of education along these lines is not so much for the book knowledge obtained, much of which is usually forgotten, but for the mental training and development of the faculties.

One of the particular faculties highly necessary to the accountant is the ability to concentrate the mind upon the problems to be met and solved. The analytical mind is in a special manner required in order to separate the essential facts and information from those of less importance surrounding the many and varied questions. Imagination and ingenuity as well as originality are often brought into play. Because each case and each problem differs in some respect, the reasoning faculty is continually required in arriving at wise and just conclusions, and the faculty of being able to adapt oneself to conditions both of work and of life makes the pursuit of the profession easier and more enjoyable.

The accountant must possess all these qualities, obtained either through the medium of schools and colleges or through the more or less general school of life in order that he may advise clients wisely and guide them safely in business and accounting matters.

In comparatively recent years vocational training has received careful consideration by educators and business people and has been adopted by many educational institutions. The tendency to specialize in particular branches of the professions and other vocations has increased in recent years and with this tendency have come added opportunities for education. The schools equipped for special education and particularly applicable to the accounting profession have been and still are limited in this country, although during the last ten years much progress has been made and many of our colleges and schools now have departments and courses on accounting and business subjects, so that there are opportunities for elementary training and special study in preparation for accounting work.

But the educational qualification is only one step in the preparation of the accountant and must be followed or supplemented

by practical experience. As the lawyer is looked to, primarily, for advice and counsel in matters involving the law, and the doctor for relief from bodily ills, so the accountant is being sought out to a rapidly increasing extent for advice and guidance in business affairs. As these demands may come from those engaged in all kinds of business undertakings, from the great industries to the smallest enterprises, from government officials, charitable and benevolent institutions, etc., obviously, the accountant, to be able to render such service, must have experience coupled with the other qualifications already mentioned.

It does not necessarily follow that he must have been a captain of industry or have worked at the bench in a manufacturing plant, but it does mean that he must have a broad and working knowledge of all kinds of business, obtained not only from books but from observation. He must learn to apply in a practical manner the theory obtained, and the only way to qualify in this respect is by going through the school of experience.

The best way to obtain the necessary experience is in working as an assistant with and for practising accountants. This affords an opportunity of first seeing the work done and actually performing certain of the details, and through this means gradually acquiring the store of knowledge and experience desired.

Accountants have been instrumental in fixing standards and qualifications, as prerequisite for the degree of C.P.A. which is issued under state laws. There are now forty states with laws of this kind upon the statute books. In this way the public is protected to some extent in that the states assume the responsibility of ascertaining that those who hold themselves out as qualified to practise accountancy have at least the prescribed minimum qualifications.

In what I have said my aim has been to put forward what I conceive as the responsibilities of the public accountant and the qualifications he should have. It is unfortunately true that all practitioners do not come up to the standards indicated, but our ideals must be high and those who would make the profession their life work should fully appreciate that their success, reputation and livelihood depend upon their realization of the responsibilities of the work.