Journal of Accountancy

Volume 68 | Issue 5 Article 2

11-1939

Accounting for Investors: The Fundamental Importance of Corporate Earning Power

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Accounting for Investors

The Fundamental Importance of Corporate Earning Power

BY JEROME N. FRANK

I

IT CANNOT be denied that Mr. Justice Holmes was one of the greatest thinkers of all time. The consequences of his thinking will never cease, in his particular field. I shall presently suggest that the value of his attitude is not thus restricted. But first let me briefly summarize that attitude: "The *life* of the law is not logic; it is experience," he remarked many years ago. The law, he insisted, "cannot be dealt with as if it contained only the axioms and corollaries of a book of mathematics." Often he deplored the tendency to deal with law as if it were "a theological working out of dogma." He saw that its only value is that it is "but a part of the lives of men." "Certitude," he asserted, "is not the test of certainty. We have been cocksure of many things that were not so." He warned against all forms of "delusive exactness." And he used his knowledge of history in a constructively skeptical manner, as "the first step of enlightened skepticism" in order to "burst inflated explanations." It "is revolting," he remarked, "to have no better reason for a rule of law than that so it was laid down in the time of Henry IV. It is still more revolting if the grounds upon which it was laid down have vanished long since, and the rule simply persists from blind imitation of the past." He was always watchful of seeming certainty that was only an illusion; for, as he put it, "certainty generally is illusion." He wisely noted that "all life is an experiment." And at the bottom of all his thinking was this aphorism: "To have doubted one's own first principles is the mark of a civilized man."

Holmes awoke the legal profession—or some of it—from its dogmatic slumber. I suspect that the accounting profession needs a Holmes; that what he said of law is, in large measure, true of accounting; that it needs to question its own first principles, to ask whether much in accounting that seems certain rests merely on a feeling of certitude, whether its apparently precise symbols do not often actually conceal vagueness, whether many of its rules and principles are accepted for no good present reason and persist merely from blind imitation of the past.

I wish that I had the time and ability to develop all the implications of those comments, to discuss in detail the consequences for accounting of the Holmesian outlook. But I must content myself with a fraction of such an undertaking, to question, and superficially, but a small portion of your first principles.[1]

II

Every man is likely to overemphasize and treat as fundamental those aspects of life which are his peculiar daily concern. To most dentists, you and I are, basically, but teeth surrounded by bodies. To most undertakers we are incipient corpses; to most actors, parts of a potential audience; to most policemen, possible criminals; to most taxi drivers, fares. "The Ethiopians," wrote Xenophon, "say that their gods are

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NOTE.—An address delivered before the eighth annual meeting of the Controllers' Institute of America, New York, N. Y., October 10, 1939, reprinted from *The Controller*, by special permission.

[1] The views expressed in this paper are personal and are not to be taken as the official attitude of the Securities and Exchange Commission.

snub-nosed and black-skinned, and the Thracians that theirs are blue-eyed and red-haired. If only oxen and horses had hands and wanted to draw with their hands or to make the works of art that men make, then horses would draw the figures of gods like horses and oxen like oxen, and would make their bodies on models of their own." Spinoza suggested that if triangles had a god it would be a triangle. We make life in the image of our own activities.

We are thus prone to neglect those aspects of life that do not immediately concern our tasks and to overemphasize those that do. And, too, we often lose sight of the wider perspectives of our own jobs, forget to relate our limited function to the broader scheme of things. There is "a tendency for the potter to become the slave of his clay." I may be wrong, but, judging from the corresponding characteristics of my own profession (I am a lawyer) I surmise that those who are engaged in accounting sometimes forget to ask themselves just what is the social function of their work.

Specialization has its virtues, but its faults as well. One recalls the old story of the professor and the guide in a canoe on a 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 burbled, "No."

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

Accounting, of course, has multiple functions. As Walton Hamilton says, "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." Today, because, being an S.E.C. Commissioner, I, too, am near-sighted I want to discuss accountancy as a servant of the investor, particularly the investor in listed or registered securities. And I want to begin by suggesting that the terminology and form of the accountant's report, unless its true nature is made plain to him, can and often do mislead the wayfaring investor.

Like accountancy, the law has words and phrases that promise a precision which they cannot deliver—words like "due process," "due care," "reasonable man," "prudent," "good faith." The sophisticated lawyer comes to know these words for what they are: they create an appearance of legal uniformity and definiteness which, in truth, often does not exist. The same can be said of much accounting terminology. "Depreciation"—is that definite? Surely not. It is a function of several variables. One of them is "cost." Is "cost" an immutable thing? Not at all. A "reserve for contingencies" is surely not lacking in contingency.

As in law, so in accounting; not only are many of the rules and principles not fixed and certain, but the facts to which they are applied, in each particular instance, are often matters about which reasonable men can differ. For, frequently, those facts rest upon judgment, upon opinion. And judgment and opinion are human and therefore fallible.

Of that the investor must be made aware. The arithmetical precision of the balance-sheet and the earning statement must not be allowed to delude him. Holmes taught us that you can give any lawyer's conclusion a logical form, but that that form should not deceive the client into ignoring the frequently unavoidable inexactness of the lawyer's premises. And the fact that the accountant uses exact figures, down to a penny, should not deceive the investor into believing that the facts symbolized by those exact figures are always themselves exact. The arithmetical form is a convenience, but it often expresses something which is but, at best, a conjecture about conjectures. Even were all accounting "principles" as fixed as the North Star, they could not produce certainty, for the principles are only the formal aspect of the business. "The only use of forms," Holmes once said, "is to present their contents, just as the only use of a pint pot is to present the beer . . . and infinite meditation upon the pot will not give you the beer."

I happen to be one of those lawyers who think it unwise to deceive the layman, to conceal from him the ineluctable uncertainties of legal opinions and of the workings of our legal institutions. There are lawyers who deem such candor unwise, who believe that it is better for the laity that they should not know too much about those inexactitudes. I concede that there is some room for argument on that subject (although I think that my side has far the better of the argument). But I can see no good argument for deceiving the investor as to the inherent uncertainties that lie back of the prim and neat arithmetical façade of the accountant's report.

By its very nature, that report, unless well understood and interpreted, is at variance with reality. For in the accountant's report, a continuum is represented by a cross-section; a growing thing is pictured as static. Instead of a motion picture, we get a snapshot, a "still." A year's account is, in and of itself, a fiction; it depicts frozen motion, an organism as if it were inorganic, a flowing stream as if it were a pane of glass. The year, at best, is an arbitrary and artificial measure which may falsify the trend of events in a business. And to reflect even that year by a calculus of conditions at one moment of that year is indeed to indulge in artificiality.

And that artificiality is especially pronounced if you agree with me on this point: So far as the investor, in the corporations whose securities are listed or registered, is concerned, accountancy, in my opinion, should have but one *ultimate* objective—to disclose the reasonably prospective net earning power of the enterprise. (I want to italicize the word "ultimate" else my meaning may be entirely misunderstood.)

More and more, in divers situations, this notion is emerging: The *ultimately* controlling fact affecting the investor in such companies is nothing more or less than that reasonably prospective net earning power. *That viewpoint needs many qualifications, I concede. But because it has, to date, not been given sufficient weight, I want deliberately to overemphasize it and thereby concentrate greater attention upon it.* For even the qualified acceptance of that idea has been slow. Only a few years ago, it was still heresy in the field of corporate reorganizations. Recently its recognition has grown rapidly and it is now almost universally adopted by commissions and courts dealing with such reorganizations.

As our Commission said last year, "for purposes of reorganization . . . earning power becomes in the final analysis a paramount criterion. . . . Valuation for rate-making purposes is not the same. There the question is how much the utility will be allowed to earn—if it can. Here the question is how much can it earn—even if allowed." And some two months ago we said, in a reorganization case, that "such considerations as book values, original or historical costs and reproduction cost new less depreciation, in determining the value of productive property, are generally of evidentiary significance only in so far as they bear upon the question of earning power." We added that "consideration must frequently be given to historical or original cost and reproduction cost new less depreciation, not because they are standards of value for reorganization purposes, but because they bear on future earning, particularly in instances in which they are regulated by rate-making bodies." In other contexts than reorganization the Supreme Court has said that "The commercial value of property consists in the expectation of income from it"; and that "the value of property, generally speaking, is determined by its productiveness—the profits which its use brings to the owners."

That standard, as the ultimate standard, is equally valid in all fields where the investor's interests are involved. It is based upon the underlying concept of the economic order in which we live: Ours is a profit economy; wherefore the worth of things, in the business world, is measured by their capacity to yield profits. And that means earnings. To be sure, some men buy property having no present earning power, with the expectation of selling at a higher price; the capital gains, not earnings, are then the profits they anticipate. But, in last analysis, the higher sale price they expect will be paid only because the buyer assumes that the property has a potential earning power which, if capitalized, will equal that price. So that a profit economy necessarily implicates foreseeable earnings as the ultimate yardstick.

Approaching accountancy with that end in mind compels reorientation. The profit-and-loss statement plainly and directly serves that end. But everything else that accountants do (and, I might add, much that some accountants fail to do) takes on new meanings[2]: The balance-sheet becomes useful primarily in so far as it serves as the effective means of estimating future earning capacity.

The property 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.

[2] *Once more, recall that I am deliberately overemphasizing.*

To those who have not reflected much on that subject, such an idea will raise many questions. What, for instance, shall we say of the "value" or "cost" of the company's properties? I wish that I had the time to go into those questions at great length. All that I can say here is the following: I know of no word which is more ambiguous and which has caused more fruitless discussion than the word "value." But "value" for the investor, I submit, is ultimately determined by the expectation of future earning power. To be sure, there is "liquidation value." But, when it comes to the liquidation of most large corporations, one of two things happens: (1) either the property is sold to someone who buys, having in mind what he can get for the property, which in turn has reference to what someone will be able to make the property earn; or (2) the property is not sold and the company is reorganized—in which event the several classes of investors (bondholders, other creditors and stockholders) receive new securities in amount and of a kind measured by the value of the property in terms of its reasonably anticipated earnings. And so of the cost of the company's property: Certainly one of the most important immediate purposes of accounting is to show that cost—whether it be the 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—and it cannot be said too often—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.

Value, thus conceived, is capitalized earning power. Cost has its significance as a check on the stability of future earnings: The original cost, or the cost of reproduction or replacement, of a power plant in the middle of the American desert has little bearing on its value vis-à-vis earning power. (Let me quickly add these parenthetical words of caution: In stressing earning power I am not to be taken as in any way approving the practice of "revaluing" the property by setting up on the books, in the property account, as the "value" or "cost" of the property, especially in the absence of any arm's length sale, the capitalization of anticipated earnings, a practice which did much to impede the progress of many utility companies, with grave injuries to their investors.) [3]

"*Determining* the future net earnings," I said. See how I have taken over, glibly, the language of exactitude. Surely that is misleading verbiage. No one can make such a determination. All that one can do is to conjecture, to surmise—to guess. And that is true not only because "net earnings" is a relatively vague term—involving, as it does, fallible judgments as to depreciation, bad debts and other items—but, far more important, because the past is no infallible guide to the future—except to an Omniscient Being, who knows all the events of the past and correctly interprets their meaning for the future. No man either knows all past events or is able thus to interpret them; no man can, therefore, with surety, predict the future. There are too many incalculables: A highly profitable business, with plants having a huge original and replacement cost, and which have been prudently depreciated, with an excellent current position and a modest ratio of long term debt to assets—such a business may become bankrupt within five or ten years because of a new device at this minute being invented by some unknown bright young man. Who knows what technological changes, subversive of the earnings of a prosperous industry, may be now beginning its life cycle? Suppose that the work of physicists in breaking down the atom yields startling new sources of cheap energy. See what the automobile and improved roads have done to the railroads and dozens of other industries. Indeed a wise man has remarked that the inventors of the automobile have had more influence than Caesar, Napoleon, and Ghengis Khan. (That remark must be revised when one remembers that Ghengis Khan brought to Europe the Chinese inventions of printing and the compass, two of the most effective factors in the breaking down of feudalism and the development of western culture.) Thousands of acres of cheap land became immensely valuable because the internal combustion engine made oil indispensable. Think what

[3] The relation of past and prospective earnings to the issuance of new securities of utility companies raises many difficult questions. The interest of the consumer there looms large. See, for instance, in the matter of Public Service Company of Colorado, S.E.C. Holding Company Act Release No. 1701 decided August 28, 1939, and in the matter of Central Illinois Electric and Gas Company, Release No. 1592, decided June 21, 1939.

would happen to those values and to the entire oil industry if someone should discover a commercially practicable and cheap means of converting corn stalks into an effective motor fuel.

It is said that a banker once defined invention as that which makes his securities unsecure. And well he might. "Rayon," says Ogburn, "has helped to imperil the cotton kingdom and a textile industry which brought on the industrial revolution." What changes will artificial fibres produce before many years elapse? Who knows the future industrial consequences of "tray agriculture"? Cloistered mathematical geniuses, Galileo, Kepler, and Descartes, are the true fathers of modern industrial civilization. The modern scientist may revolutionize it. Who can foretell what will be the results of the industrial applications of Einstein's formulations?

Factors which are inherently impossible to weigh and measure and therefore to estimate in advance may, then, upset a well-thought-out business forecast. And yet, we often blithely assume that the present trend of a company's earnings will continue indefinitely. We speak with assurance of a bond issue as conservative because the interest has been and is now being earned three times. In an era where change, not permanence, is the norm, where the one certainty is that there is no certainty, we capitalize earnings which have been stable in the past as if they were sure to be stable forever more. We thus project the impermanent present into an imaginary permanent future. At the bottom of many of our "sound" investment judgments is a fiction, a "let's pretend," the assumption that profits, made by mortal man, possess immortality. We are thus frequently the victims of an illusion—of the permanence of the transitory. No investment is absolutely safe or sound; "safety" and "soundness" are relative, not absolute terms. The truth is that profits are subject to hundreds of incalculables which neither accountants, nor anyone else, can foresee. Future earning power, and therefore "value," are, I repeat, a prediction, a guess. *But that guess should be an educated guess.*

When I say that, I do not mean, of course, that, because complete certainty in accounting is lacking, there is or must be complete uncertainty. The accountant's performance lies between those polar extremes. To paraphrase what I've said elsewhere: No one but a fool rejects the possibility of reducing uncertainty as far as possible because it cannot be completely obliterated—just as no sane man will turn his back on all physicians merely because the flesh is heir to many diseases for which no cure has been, and in all likelihood will ever be, discovered by the medical profession. The perfectionist will not be satisfied by any such intermediate position. But life is hard for the perfectionist, everywhere. The insane asylum, and not any part of the ordinary walks of life, is the place for perfectionists and those adults who demand complete freedom from uncertainties. We are but mortal, and contingency is the essence of mortality. Only in the grave do we escape it. Almost all thinking is based on mere probabilities, not on guarantees: even the physicist today employs the principle of uncertainty or indeterminancy. To ask for complete and absolute exactitude, at all points in accounting, is absurd.

With that in mind, it appears that there can be such a thing as excessive emphasis on the importance of the accountant's task. That overemphasis is unfair both to the accountants 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.

To illustrate: An adequate accounting job should furnish much data showing the history of the company's earnings. But that earning history, over any given period of years, needs interpretation, for its significance will vary from industry to industry.

The accountant, that is, supplies *some* of the materials for, 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 (or that of his advisers) cannot be compounded solely of those 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. I distinctly do not mean that the accountant is to forecast future earnings. I do mean that he should give greater recognition to the fact that the principal interest of the investor and his advisers is future prospects—earnings.

In sum, I do not mean that the present financial statements should be replaced by earnings forecasts. But I do mean that financial statements intended for investors should be designed with a view to their ultimate use in appraising earnings prospects. That should be the focus of the accountant's attention in preparing reports for investors.

It may very well be—I am suggesting this for your consideration—that the present balance-sheet which attempts on two pages, with some accompanying explanatory notes or tables, to describe a vast business enterprise, cannot at the same time meet all of the varied demands made upon modern accountancy.[4] It is possible that our all-purpose balance-sheet cannot faithfully serve all of its many masters—the divergent and sometimes conflicting interests of creditors, stockholders, management, tax collectors, the regulatory agencies. Would it not be feasible to construct "single purpose" balance-sheets and possibly income statements which would reflect the enterprise in the terms and categories which would best serve particular purposes and then in a separate column make the necessary reconciliation between the various statements? Or, the all-purpose historical balance-sheet might be made more meaningful to the investor by supplementing it with a special-purpose financial statement designed to serve the particular interests of the investor. For although educated prophecy needs sound history, it needs more than that—it needs history presented and explained in the light of the specific prediction that must be made.

Because I am a lawyer, I inevitably compare the work of the accountant with that of the lawyer. Now I know that a lawyer's opinion is in many cases merely an educated guess. Advising a client as to his rights under a proposed contract or mortgage or lease means that the lawyer is predicting—that is, guessing—what will happen to his client in some future law suit, should one arise. In making that guess, the lawyer must assume the present and future existence of many facts. The very word "fact" covers a multitude of contingencies. (A book could be written on the job of the lawyer, stressing that point; indeed, I've written and published one such book, and, before long, hope to publish another.) The lawyer's guess, then, cannot be infallible. But he owes the obligation to reduce to a minimum the elements of uncertainty on which he bases his advice. The obligation of the accountant is of a somewhat similar character.

And one custom of lawyers should certainly be imitated by accountants:

[4] Without necessarily expressing complete approval of their entire thesis, I would like to commend the brilliant article on accounting by Maurice C. Kaplan and Daniel M. Reaugh, 48 *Yale Law Journal*, 935 (April, 1939).

When a lawyer gives an opinion as to the title of real estate, he states in his opinion that he has based it on an examination of certain abstracts of title. If any of those abstracts are of questionable worth, his opinion so states. If there are any relevant matters that he has not examined or considered, he says so; if there are doubts which he has not resolved, he so advises his client. If his conclusion is based on certain assumptions of fact or theory, he indicates how alternative assumptions will affect the result. Knowing the basis and the limitations of the lawyer's opinion, the client can more accurately judge the hazards of his venture.

It is a function of the financial statement also to supply basic material for making an educated guess. Precisely because the unknowables are many, all the knowables should within reason be thoroughly explained and fairly and fully disclosed. That much the financial statement can and should do. Or, if in any particulars this has not been done, the financial statement should be so drawn as to make this unmistakably clear. Judgment and discretion, of course, play important rôles in the selection of a particular method of accounting to be followed and also in the allocation of specific items and transactions into one accounting category or another. For example, the particular inventory method used has, as you know, an important effect on the net income reported for the year. Without disclosure of the particular method, educated guessing is impeded. As George O. May once pointed out, an investor "cannot give the same weight to profits of companies in the same business without knowing whether the profits to which their calculations were applied have been computed on the same basis or how great the effect of a difference in method might be." In the establishment of allowances for depreciation and amortization for bad debts and contingencies, judgment and discretion are clearly of paramount importance. The financial statements filed with us are, as you know, required to explain the methods followed in their preparation wherever those methods, generally speaking, would have a significant effect on the computation of earnings. We also seek to require sufficient breakdown of information in those statements to disclose the fields in which judgment and discretion play the most important rôles so that they may be given appropriate weight.

I have been speaking of the problems of accountancy, of the work of a profession which embraces both the controller and the public accountant. The controller has assumed significant responsibilities and duties, however, which are wholly independent of the outside auditor. Because of your intimate knowledge of your company's accounting problems and organization you are asked to participate in or decide questions involving operating statistics, budgets, costs, taxes, preparation of financial reports to stockholders, governmental agencies, and regulatory commissions. In view of your position, the investing public has, necessarily, come to rely to a greater extent than ever before on the work for which you are responsible. Consequently, the scope of your responsibility and authority is important. Unless to your position as controller there is given an appropriate measure of independence and responsibility, the value of your services to your company, and therefore, of course, to the investors in your company, may be lessened. With this in mind, I heartily favor the recommendation of one of your committees that the functions and responsibilities of the controller, as an officer, be specifically defined in the corporate by-laws. While a recital of that sort never alone insures conscientious and efficient performance, yet such recognition should aid in strengthening your position as a responsible official. As a responsible officer you will be better able to integrate the management's accounting with a view to making it an effective tool for the faithful recordation of the facts of the company's business.

But accounting by management, for reasons which you know, requires a check which is furnished by the independent accountant. Of course, as the Commission has recognized in a recent opinion, the independent accountant is a check and not a substitute for accounting by management. By this check much can be done to protect the investor against the continuance of dishonest and inept management. It is one of the many valued contributions of my distinguished predecessor, now Mr. Justice Douglas, that he focused attention on the fact that men are at least as important as assets in the efficient functioning of a business; that stupid or crooked management on the one hand, and wise and alert management on the other, can break or make the business.

One thinks at once of a recent notorious case in which crooked management went on for years undetected by the auditors. Without here passing on the merits of the work done by them in the light of accounting standards *then* prevailing (for I want to indulge in no hindsight judgments), it may fairly be said that from that case we may derive these observations as to standards which should *hereafter* be applicable: Accountants should not undertake to make a report unless, before doing so, they have become sufficiently familiar with the business of the company to give them a background for their work, a basis for determining of what their work must consist and a basis for appraising the company's operations. Those in charge of the audit should have had adequate business experience and should inform themselves generally as to the industry so as to make pertinent comparisons of the company under examination with the industry as a whole. One of the important factors they must consider is the reliability of the company's own internal accounting and auditing procedure. In doing so, they should be greatly concerned not only with the blueprints of the system of internal check and control, the purported system, but also with the system that is in actual operation, with the system in action and not merely on paper. Consideration of these factors is necessary in determining the character that their examination must take. Finally, the examination made ought not to exclude from its scope the management of the company. In this sense, auditing procedure is as important as the application of appropriate accounting principles, since unhappy experience has underlined the obvious in showing that unless the principles are applied to authentic and accurately reported transactions the results are false.

As to the final report prepared by the accountant, you will recall my earlier analogy to my own profession. As I said, a lawyer's opinion refers to any pertinent matters which he has not examined or considered or to any doubts which he has not resolved. Somewhat the same philosophy should be applied by the accountant in his certificate, at least in respect to departures from audit procedures normally followed for the purpose of presenting comprehensive and dependable financial statements.

Without in any way indicating what the applicable law and morals may have been in the past, I suggest that the McKesson and Robbins case—or perhaps I should call it the Musica case—raises, for the future, certain questions with respect to corporations whose securities are listed or registered. In voicing the following questions I am not to be understood as answering them, but merely as putting them up for discussion. Furthermore, I want to emphasize that my concern is with the future, not with the past.

While the controller serves not only

the management but the stockholders, should not the accountant serve the management and the stockholders and the bondholders and other creditors? And should not the accountant serve not merely the existing stockholders and bondholders and creditors, but *all future investors?* In 1896 an English court, in exculpating an accountant, said that he is "not bound to be a detective or . . . to approach his work with suspicion." The question is whether, beginning in October, 1939, we should not say that the accountant *is* bound to be suspicious, that he *is* bound to be a sort of detective for present and for future investors. They look to him to furnish information to guide their judgment. Should not the purpose of detection of fraud or carelessness be an important part of his work? Should not accountancy, in that sense, become *three-dimensional?* Should the auditor not, with respect to investors, be in much the same position as the bank examiner with respect to the depositors of a mutual savings bank? The officers of a bank do not resent the suspicion of bank examiners. The business of the bank examiners is to be suspicious. Competent officers of a bank do not fear that suspicion. Why should the decent, intelligent, honest management of a great corporation resent it if the accountant, in examining the corporation on behalf of the investors, constantly keeps a weather-eye open to suspicious circumstances? It may be that we are reaching the time when there should be a new emphasis on the *public* aspects of the *public* accountant's work. Perhaps, it will before long be recognized that he is, indeed, a quasi-public official.