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Editorial

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EDITORIAL

The Income Tax Amendment.

Whatever may be the fate of the income tax amendment to the Federal Constitution, it is having the good effect of setting the American people to thinking about the important subject of taxation. Although this subject touches the pocket-book of every citizen, it has never been a matter of general or popular debate. The tariff, indeed, has been discussed, but as a protective measure, not as a tax. Money, banking, trusts, the regulation of railways, municipal ownership, the evils of corporations, stock watering, speculation—these topics have been debated for a good many years, and with regard to them every well-informed citizen has pretty positive opinions, if not convictions. About taxation, however, the average man knows little and cares little. He does not like to pay taxes, nor even to think of them.

THE JOURNAL is fortunate in being able to print in this number the able and interesting speeches delivered before the New York Economic Club at its March meeting. The subject was the pending amendment to the Federal Constitution permitting an income tax. It should be noted that a man who is in favor of the

income tax on general principle may nevertheless be opposed to the pending amendment. The debate, therefore, does not treat specifically of the advantages and disadvantages of the income tax. The speakers on the negative object to the pending amendment, not because it would give Congress the power to levy an income tax, but because it would give power to levy such a tax without apportionment among the states according to population and without regard to the source from which a man's income may be received. The amendment in its present form, it is urged, would give Congress power to tax incomes received from state and municipal bonds, and such a tax, it is claimed, would lessen the market value of such bonds, and might even render them unsalable excepting at very low prices.

To the reader who wants more light than he can get from these addresses we would recommend Professor E. R. A. Seligman's article on "The Income Tax Amendment," in the *Political Science Quarterly* for June, 1910. In this article Professor Seligman argues that Governor Hughes was mistaken in his interpretation of the legal force of the amendment, and then states the economic and legal reasons in its favor. In his opinion "the amendment declares that an income tax can henceforth be levied without apportionment, no matter what the source may be; that is, no matter whether the source is one that at present necessitates apportionment or one that at present does not necessitate apportionment." When the amendment states that the government shall have power to levy a tax "on incomes, from whatever source derived, without apportionment," chief emphasis is to be put upon the words "without apportionment," and not on "from whatever source derived." In support of his opinion Professor Seligman cites decisions of the Supreme Court of the United States showing that it has held certain kinds of income taxes to be indirect and others direct, and the latter have been held to be unconstitutional unless they were apportioned among the states according to population. Furthermore the Supreme Court has held that no state legislature has the power to tax government bonds, and has declared that state and municipal bonds are not taxable even by the United States, for, as Chief Justice Marshall said in the case of *McCulloch v. Maryland*, "the power to tax involves the power to destroy." Or to quote from the Supreme Court decision in *Collector v. Day*,

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given in 1870, which held that the income tax was unconstitutional so far as applied to the salaries of state judicial officers: "it is admitted that there is no express provision in the Constitution that prohibits the general government from taxing the means and instrumentalities of the states, nor is there any prohibiting the states from taxing the means and instrumentalities of that government. In both cases the exemption rests upon necessary implication, and is upheld by the great law of self-preservation."

However one may feel with regard to the pending amendment, there can be no question that the Congress of the United States ought to have the power of imposing an income tax even though such tax is not levied in ordinary times. It is exceedingly desirable that the government shall be able in an emergency to raise funds by taxing the incomes of its citizens directly. The objection that it would bear heaviest upon the Eastern states, and especially upon New York City, ought to have no weight with loyal citizens. The Eastern cities draw the lion's share of their incomes from the Great West and South, and the men who enjoy these incomes should contribute to the support of the government in proportion to their ability.

Deluded Old School Accountants.

On another page we publish a circular letter sent by the Interstate Audit Company of Chicago to a well-known business firm of that city. Accompanying the letter is a schedule of charges, ranging from \$5 to \$20 a day. We hope that our readers will examine this letter with care, for it illustrates concretely just what is going to happen to the accounting profession unless its standard of ethics is maintained. The accountants of the "old school" who have a "mistaken idea that they are practicing a profession" will, as this letter says, prove to have been "deluding themselves" if they lower their own standards in order to meet the competition of the "high grade bookkeepers" who are soliciting business under the name of an audit company.

The law does not protect a profession against assaults of this kind. We regret, furthermore, to have to admit that there are certified public accountants who believe that accounting is

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merely a business, and that the men engaged in it are justified in obtaining customers by any method known to commercial practice, whether by direct solicitation, by advertisement, or by underbidding and belittling their rivals. Fortunately, however, the membership of our state societies of certified public accountants and of the American Association of Public Accountants is practically a unit in opposition to all practices that savor of commercialism and tend to degrade the profession. Many business firms, knowing that only cheap men seek to get business by cheap practices, feel only contempt for an accountant who offers them an audit at half price. The profession is young, however, and this Chicago audit company, if it is lavish in the use of postage stamps, will doubtless find some employment for its bookkeepers. That is a matter, however, of small consequence. We do not, on behalf of the profession of accounting, begrudge them any business they get, but we do think something ought to be done to protect the profession against the evils of quackery. Accountancy as a young profession needs all the advertising it can get; the professional accountant needs none at all.

THE JOURNAL urges, therefore, that the state societies begin a campaign of publicity, and do their utmost to let the public know the distinction between accounting and bookkeeping, and why one is a profession and the other a trade or business. In the furtherance of this campaign THE JOURNAL will be glad to hear from accountants in all parts of the country, and to receive from them, not discussions of the theory or standard of ethics, but concrete instances which in their opinion constitute violations of the standards already attained. We may thereby help educate business men, and possibly also shame some of the "commercial" accountants into a sense of their professional obligations.

Minnesota Board of Examiners.

The membership of this Board has been entirely changed since January 1st. On that date the term of Mr. Ralph B. Webb expired and he was succeeded by Benjamin Franklin, Jr. Mr. F. A. Ross resigned at this time and was succeeded by J. Gordon Steele as was announced in the Journal last month. Subsequently Mr. H. M. Temple resigned from the Board and he has been succeeded by Mr. Harry W. Mann. We understand that the latter is not a public accountant but occupies a position of bookkeeper for a wholesale mercantile firm.

Accounting at Your Own Price.

We print below copy of a letter recently received by a prominent business house in Chicago:

Gordon H. Somers, C. P. A., Manager
INTERSTATE AUDIT COMPANY

CHICAGO, March 21, 1910.

DEAR SIR: When you have occasion to employ Accountants or Auditors why not get the best service obtainable, particularly when it can be had for less money than you have been paying?

A Professional Accountant or Auditor is nothing more than a high grade Bookkeeper. Did you ever know a Bookkeeper who was worth \$60.00 or \$90.00 a week? Then, why pay such prices for service of, oftentimes, doubtful value?

Here's the reason; the Accountants of the old School have a mistaken idea that they are practicing a Profession, that they are in the same class as Lawyers and Doctors, deluding themselves with the theory that it is unprofessional to solicit business, that it should come to *them*. The result is, they work sometimes, loaf most of the time, and when they do get a job, charge enough to make up for lost time and vacations.

The INTERSTATE AUDIT COMPANY is conducted on strictly commercial principles. We solicit business, advertise for it, make a price based on the nature and value of the Service required, charge only for the actual time employed, are satisfied with a small profit on each job, do business on a wholesale scale and render Service that is seldom equalled but never excelled.

We make the best looking report you ever saw (we'll show you a sample and let you judge for yourself), our work is as good as it looks (any of our customers will tell you that).

We enclose herewith, a Price List (we're the only concern in existence that publishes one). If you prefer a Flat Price, we would be pleased to give you a figure for a Monthly, Quarterly, Semi-annual or Annual Audit.

If you want to find out anything about us, don't ask our competitors. Ask the business men.

Don't you think it would be to your interest to patronize us? We would be pleased to do your work and hope we may hear from you.

Very truly yours,
INTERSTATE AUDIT COMPANY,
(Signed) G. H. Somers, Manager.

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COPY OF ENCLOSURE

Telephone Central 1852

INTERSTATE AUDIT COMPANY

Chartered under the laws of Illinois

140 Dearborn Street, Chicago

SCHEDULE OF CHARGES

Writing up or Posting Books.....	\$5.00 per day
Checking Postings, Verifying Footings and Proving Trial Balances.....	\$5.00 per day
Work of the above nature is not an Audit and we certify only to the clerical correctness of the Accounts.	
Verifying Cash on Hand and Proving Bank Account.....	\$6.50 per day
Work of the above nature is a Verification of the Cash on Hand and an Audit of the Bank Account, and we certify to the correctness of both.	
General Auditing, Analyzing Accounts, Making up Financial Statements and Profit and Loss Accounts.....	\$7.50 per day to \$10.00 per day
Work of the above nature is a thorough Audit of the Accounts and we certify to their correctness in all respects.	
Designing and Installing Systems of Cost and Accounting.	\$15.00 per day
Special Examinations and Certification of Property Values, Earning Capacity, etc., and making such Statements as are required for the purpose of Bond Issues, Increase of Capital, etc.....	\$20.00 per day
The above charges apply only to Chicago and suburbs. In all other Cities Hotel Bills and Traveling Expenses will be added.	

This Is More Modest.

The following circular letter illustrates the methods employed by a New York Audit Company:

NEW YORK, March 12, 1910.

DEAR SIR: All things come to him who waits. We have all been waiting on prosperity, do we not see it coming? Providence has again furnished good crops.

If our services show the causes of adversity, they certainly contribute to prosperity.

Our services consist of:

All kinds of skilled auditing.

Money saving systems of account.

The time of an expert for one or more days to advise as to methods.

Engineers' appraisals of land, buildings, machinery, equipment, etc.

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Engineers' investigations, reports and recommendations as to properties and plants.

Your time is valuable, but it would be worth while to consider our helpfulness. No charge for going to see you. We quote lump prices for work.

A stamped envelope herewith for reply.

Yours very truly,

President.

State Board of Accountancy Established in Virginia.

The State Legislature of Virginia recently passed a bill providing for the establishment of a State Board of Accountancy, which should have the duty of examining candidates and issuing certificates to those duly qualified for the profession of public accountant. The bill was signed by Governor Mann on March 17 and the following board was appointed by him:

Joseph Stebbins, of South Boston. J. A. C. Chandler, of Richmond. W. P. Hilton, of Norfolk. W. McK. Evans, of Richmond. George A. Mahon, of Lynchburg.

Mr. Stebbins is the lawyer member of the board, Dr. Chandler the educator and the other three were recommended by the Virginia State Accountants of which Mr. Hilton is president.

The members of the new board are to receive traveling expenses and \$10 per day while engaged in the work of examining applicants for certificates as certified public accountants. All persons desiring to take the examination must pay \$25. If they fail to appear at the examination they may take the next examination by paying \$10 extra—\$35 in all. Any person who should seek to call himself a certified public accountant in Virginia without a license from the State Board will be subject to a fine of from \$100 to \$500.

The provisions of the act in regard to the qualifications of candidates for the examinations are similar to those in other states. The bill in its complete form is as follows:

A BILL

To establish a State board of accountancy and prescribe its duties and powers; to provide for the granting of certificates to accountants who qualify under the provisions of this act, and to provide a penalty for violation of this act.

Be it enacted by the General Assembly of Virginia, That there is hereby established a State board of accountancy, to consist of five members to be appointed by the governor; one member shall be a practicing attorney in good standing in any of the courts of this State, and he shall hold office for the term of three years and until his successor is appointed and qualified; one member shall be an educator who has received the degree of LL. B. or LL. D., and he shall hold office for the term of three years and until his successor is appointed and qualified; the other three mem-

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bers shall be practicing public accountants who have been actively engaged in such practice on their own account for at least three years next preceding such appointment; and they shall hold office one for the term of three years, one for the term of two years and one for the term of one year, as designated by the governor in his appointment; and, upon the expiration of each of the said terms, a member shall be appointed for the term of three years, but after January first, nineteen hundred and eleven, all accountants appointed to serve on this board must be holders of C. P. A. certificates under the provisions of this act. Any vacancies that may occur from any cause, shall be filled by appointment to be made by the governor for the unexpired term.

Any citizen of the United States (or person who has duly declared his intention of becoming such citizen), being over the age of twenty-one years and of good moral character, residing or having an office in the State of Virginia, who shall, as hereinafter provided, receive from the Virginia State board of accountancy a certificate of his qualifications to practice as an expert public accountant shall be known and styled as a "certified public accountant," but no other person, nor any corporation, nor any partnership, all the members of which have not received certificate, shall assume such title, or the title of "certified accountant" or "chartered accountant," or the abbreviations "C. P. A.," or "C. A.," or any other words, letters or abbreviations tending to indicate that the person, firm or corporation so using the same is a certified public accountant.

Examinations of persons applying for certificates under this act shall be held in Richmond at least once in every year, or oftener in the discretion of the board. The subjects in which applicants shall be examined are (1) theory of accounts; (2) practical accounting; (3) auditing and (4) commercial law as affecting accountancy.

No person shall be permitted to take such examination unless he shall have been practicing on his own account as a public accountant for at least one year, or shall have been employed in the office of a public accountant as an assistant for at least two years, or shall have been employed as a bookkeeper for at least three years.

Applicants not presenting proper credentials showing that they have received a general education equivalent to a public high school course of recognized standing, may be required, in the discretion of the board, to pass a preliminary examination in the subjects embraced in such high school curriculum.

All examinations being provided for shall be conducted by the State board of accountancy. The time and place of holding examinations shall be duly advertised for not less than three consecutive days in at least one daily newspaper published in Richmond, one published in Norfolk and one published in Lynchburg, not less than thirty days prior to the date of each examination.

The board may make all needful rules and regulations regarding the conduct and scope of the examinations, the method and time of filing applications for examination and all other rules and regulations necessary to carry into effect the purpose of this act.

The board may, in its discretion, waive the examination of any person possessing the qualifications stated in section two of this act, who

(1) Is the holder of a C. P. A. certificate issued under the laws of another State, which extends similar privileges to certified public accountants of this State, provided the requirements for said degree in the said State are, in the option of the board, equivalent to the requirements in this State;

(2) Is the holder of a degree of certified public accountant or chartered accountant or the equivalent thereof issued under the laws of any

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foreign government, provided the requirements for said degree are, in the option of the board, equivalent to requirements of this State;

(3) Has, for at least one year next preceding the date of his application, been practicing in this State on his own account as a public accountant and who shall apply in writing to the board for such certificate within six months after the passage of this act.

The board may revoke any certificate issued under this act if the holder thereof (1) shall be convicted of felony, or (2) shall be declared by any court of competent jurisdiction to have committed any fraud, or (3) shall be declared by any competent court or commission to be insane or otherwise incompetent, or (4) shall be held by this board to be guilty of any act or default discreditable to the profession; provided that written notice of the cause of such contemplated action and the date of the hearing thereon by this board shall have been mailed to the holder of such certificate at his last known address at least twenty days prior to such hearing. At all such hearings the attorney general of this State or one of his assistants designated by him, shall sit with the board with all the powers of a member thereof.

The board shall charge each applicant a fee of twenty-five dollars (\$25.00) for the examination and certificates provided for in this act, which fee shall be payable at the time of application.

In case of the failure on the part of any applicant to attend the examination at the date specified by said board, or to pass a satisfactory examination, said applicant may appear at the next examination of said board for re-examination upon the payment of the further sum of ten dollars (\$10.00).

From the fees collected under this act, the board shall pay all expenses incident to the examination, the expenses of issuing certificates, the traveling expenses of members of the board and their compensation while performing their duties under this act; provided that no expense incurred under this act shall be a charge against the funds of this State. Any surplus of receipts over expenses shall, at the end of each year, be deposited by the treasurer of the board with the State treasurer to the credit of the State's general fund.

The members of this board shall be paid an amount not exceeding ten dollars (\$10.00) per day to each member for the time actually spent and also all necessary traveling expenses incurred in the performance of his duties under this act.

The board shall report annually to the governor the number of certificates issued and the amounts of receipts and expenses under this act.

If any person represent himself to the public as having received the certificate provided for in this act, or if he shall advertise himself a certified public accountant, or use the initials C. P. A. or otherwise falsely hold himself out as having qualified under this act, without having actually received a certificate from the State board of accountancy, or if, having received such certificate, he shall continue to practice as a certified public accountant after said certificate has been revoked; or if any person shall otherwise violate any of the provisions of this act, he shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be fined not less than one hundred dollars (\$100.00), nor more than five hundred dollars (\$500.00), or imprisoned for not less than one month or more than six months, or both, in the discretion of the court.

Nothing herein contained shall be construed so as to prevent any person from being employed as a public accountant within this State.

All laws or parts of laws in conflict with the provisions of this act are hereby repealed.