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Editorial

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EDITORIAL

The Currency and Banking Problem

All accountants should read Mr. Garrison's brief and clear discussion in this number of the relation of the currency to accountancy. The subject is one of the greatest importance, and will doubtless very soon be a national issue of the liveliest character. For nearly fifty years business in the United States has been handicapped by the use of a bank currency based upon government bonds. Furthermore, the banks themselves, through inability to take advantage of the liquid character of their assets by rediscount, have been constantly exposed to the perils of stringency and panic. As a result, although the per capita circulation of money in this country has been steadily growing larger, and although the total cash reserve carried by our banks is much larger than that of any other country, nevertheless our business men have been constantly exposed to embarrassing variations in the rate of interest and to periods of famine in the supply of loanable funds. The ebb and flow of cash between the country districts and the financial centers

have given a constant stimulus to unwholesome speculation in the stock and produce markets, on the one hand, and in western lands and mines on the other.

Stated in its simplest form, the financial problem in the United States is threefold: first, to make the hand-to-hand currency elastic and responsive to the needs of business; second, to give to the banks the power of converting their liquid assets into cash without injury to themselves or to business interests; third, to give to the entire banking system of the country unity and solidarity.

Economists and experts in banking have long been insisting that the simplest and safest solution of this problem was by the creation of a central bank of issue, whether under government or private control. All the great countries of the world excepting the United States have such banks, and as a result have suffered from crisis and panics far less than the United States. The Bank of England, although its power of note issue is of little avail, since it cannot issue notes except in exchange for gold, has nevertheless proved a bulwark to the English financial system and by its control of a comparatively small reserve of gold has given stability to the most extended and delicate credit system in the world. The Bank of France, with its large power of unrestricted note issue, has for years kept French finance as placid as the surface of a mill pond, the rate of discount varying only a fraction from year to year. The great government banks of Germany and Austro-Hungary have done the same for their countries. In Canada, a half-dozen large banks, with branches all over the Dominion, have maintained a stable and uniform rate of interest and have been able, despite the rapid increase in industrial and agricultural wealth during recent years, to prevent disastrous speculation or over-extension of credit.

In the United States, on the other hand, the people have been dependent upon isolated and independent small banks, each compelled to rely upon its own resources and its own reserve whenever danger threatened. Here there has been utter lack of union and leadership in finance. Now we have had congestion of funds in the east and consequent booms and price inflation; now congestion of funds in the west and south and consequent stringency in the east. There has been no institu-

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tion with any power of control, with interests extending all over the country, with strength sufficient to give relief to the weak, or with a sphere of operation so broad and varied, so national in character, as to be in a position to foresee and avert disaster.

The National Monetary Commission created by Congress nearly two years ago is now publishing the results of its investigations. About a dozen volumes have already appeared and some of these are exceedingly valuable contributions to our literature on finance, containing as they do descriptions of important foreign financial and banking systems. The volumes are sold separately at cost price, and it is to be hoped that they will have a wide circulation.

It is generally believed that the members of the Monetary Commission strongly favor the establishment in the United States of a central bank of issue. There is also a growing sentiment in banking and business interests in favor of such an institution. In 1906 the New York Chamber of Commerce adopted almost unanimously the report of a special currency committee favoring the creation of a central bank under government control. A special currency committee of the Merchants' Association of New York has just reported in favor of a central bank in the control of which the government shall have representation, although the proprietary interest, which is to be confined exclusively to the banks of the country, is to have dominant power over its operations. The plan favored by the Merchants' Association is that commonly known as the Warburg plan, having been prepared by Mr. Paul M. Warburg, who is a member of the Merchants' Association Committee. Any of our readers can obtain a copy of this plan and of other banking literature by sending a request to the secretary of the Merchants' Association. THE JOURNAL is of opinion that this problem is one which accountants should study and understand, and in the solution of which they should play a prominent part. As Mr. Garrison points out, accountancy is the foundation of sound credit. The credit system of the United States is in need of thorough revision. This is a task not merely for the bankers. It concerns business men even more than bankers, and in the work many details are involved which demand the accountant's knowledge and skill.

Rhode Island's Recognition of the Certified Public Accountant

At the last session of the Rhode Island Legislature an amendment to the law relating to savings banks was enacted, under the terms of which the trustees of every savings bank are required to have a thorough audit made at least once a year by a certified public accountant of the state. The accountant is to be selected by an auditing committee of two trustees, of which neither the treasurer nor any member of the board of investment shall be members. A duplicate of the accountant's report must be sent to the bank commissioner and be open to public inspection. In case of any failure to comply with the law, each trustee shall be liable to a fine of \$25.00. The form of the report and the subjects it shall cover are to be satisfactory to the bank commissioner. On another page THE JOURNAL prints the circular of instruction which has been sent out by the bank commissioner to the trustees of savings banks.

The people of Rhode Island are to be congratulated on this recognition of the profession of accountancy. Heretofore savings banks of that state had been audited by members of their own trustees. In other words, the banks have examined themselves. Such a system is evidently a bad one, and in critical times would not inspire confidence among the public. The law might have provided for audits by state examiners, but this plan would be open to the objection that such examiners are always liable to be political appointees, knowing very little about accounts or the banking business and anxious chiefly to retain the backing which secured them their appointment.

The certified public accountants of Rhode Island have now an opportunity to do their profession a great service. They should carry out the detailed instructions of the bank examiner with the utmost fidelity and thoroughness and not hesitate for an instant to call attention to all irregular or improper transactions that they discover. If their audits of the savings banks of the state win public esteem, the state may call upon them for the audit of other and more important corporations.

THE JOURNAL OF ACCOUNTANCY believes that the certified public accountant in all parts of the Union is destined to play an important role. The growing demand for publicity with

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regard to the affairs of corporations enjoying the advantages of valuable franchises, must logically lead to the larger utilization of the services of the certified public accountant. He is the one man in the state concerning whose competence to conduct a satisfactory audit the state has knowledge. Accountants in every state are heartily glad that their Rhode Island brethren have secured the recognition in the legislature which is certainly their due. It is the result largely of the efforts of the present bank commissioner, William P. Goodwin, himself a certified public accountant.

Dominion Association of Chartered Accountants

The national organization of accountants in the Dominion of Canada was incorporated as a separate and distinct professional guild on May 15, 1902. Subject to certain provisions, all chartered accountants practicing in Canada were eligible for membership. Many of the members of the provincial societies were members of the Dominion Association, but by no means all of them. At the end of 1909 the membership consisted of forty-five fellows and twenty-six associates. A majority of the fellows were practicing in Montreal, a dozen in Toronto and the rest in different cities in the Dominion.

The Dominion Association was empowered to hold examinations of its own, but as a matter of fact it never did so, although its fellow members were allowed to style themselves "chartered accountants." The Dominion Association did, however, set up its own standards of professional competence and its own code of ethics. In many of its utilities the Dominion Association overlapped the several provincial societies and considerable conflict resulted. This condition is happily at an end now.

In the association's year book for 1909-10 we find this paragraph referring to an informal conference of Canadian chartered accountants held at Atlantic City, in October, 1908, when many of them were gathered there to attend the twenty-first annual convention of The American Association of Public Accountants:

"This conference afforded an opportunity for the delegates of the Canadian societies to get together to discuss the subject of closer relations between our societies in Canada, and an unani-

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mous resolution was passed approving of this idea and providing for steps being taken to bring this about, if possible, in the near future."

As the outcome of that meeting and of other conferences looking to the same end, The Dominion Association of Chartered Accountants was reorganized last February.

The following are declared to be the objects and purposes of the reorganized association:

- "(1st) To secure the incorporation of provincial societies in provinces of the Dominion where now none exist;
- "(2d) To assist provincial societies in securing uniform legislation for the better protection and regulation of local professional interests;
- "(3d) To secure the adoption by provincial societies of uniform standards of examination and membership;
- "(4th) To arrange for reciprocal privileges between provincial societies for the benefit of their members;
- "(5th) To consider questions of ethics;
- "(6th) To secure harmony of action in all matters affecting the common interest, and generally to act in an advisory capacity to the provincial societies."

The by-laws of the association as rewritten contain thirty-six sections and are most comprehensive. They begin with this list of charter members:

"I. The membership shall be *ipso facto* the members in good standing resident in Canada of the following incorporated provincial societies, namely:

- "The Association of Accountants in Montreal;
- "The Institute of Chartered Accountants of Ontario;
- "The Chartered Accountants Association of Manitoba;
- "The Institute of Chartered Accountants of Nova Scotia;
- "The Institute of Chartered Accountants of Saskatchewan;
- "The Institute of Chartered Accountants of British Columbia;
- "Persons who at the time of the passing of these by-laws are members of the association who are not also members of any of the aforesaid societies."

Provision is made that accountants hereafter becoming members of any of the provincial societies above named shall automatically become members of the Dominion Association without further examination.

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Each provincial society, being authorized so to do by enactment of its provincial parliament, holds its own periodical examinations and grants its own authority to its members to call themselves "chartered accountant" within the borders of the province. The Dominion Association now relinquishes its right to hold examinations and to grant the degree of "F.C.A." and in other ways refrains from exercising any functions that are in conflict with the rights of the provincial societies. The scope of the association, its objects and attainment are well set forth in a paper prepared by Mr. George Edwards, F.C.A., of the Ontario Institute, vice-president of the Dominion Association, which is given in full in this issue of *THE JOURNAL*.

The first annual meeting of the Dominion Association of Chartered Accountants after reorganization is reported in this number of *THE JOURNAL*.

The convention was well attended and all the deliberations were unanimous. The Dominion Association, thus reorganized, now enters upon a new career of enlarged activity with the hearty good wishes of the professional brothers in the United States.

It is interesting to note that the association unanimously determined to inaugurate the publication of a Canadian journal of accountancy.

As might have been expected, uniformity in accounting methods is one of the points prominently brought forward at the annual convention of the National Association of Controllers and Accounting Officers, which met in this city Thursday. Only by the adoption of uniform methods of accounting can it be made possible to institute effective comparisons between the financial affairs of one city and another, except at a prohibitive cost in time and effort. The mere coming together of so many of the representatives of municipal finance from all parts of the country must tend strongly towards the attainment of this end, and towards improvement of administrative methods generally. It is curious, however, to note that much hostility appears to exist in the body to the intrusion of volunteer investigators into the field of municipal finance. We are under the impression that the improvements that have taken place in New York's accounting methods are largely due to the inquiry made into them by the Bureau of Municipal Research, and to the recommendations of that organization. Of course, anything is liable to abuse and ill-directed investigation may give much trouble to no good end; but surely there is plenty of most useful, and, indeed, urgently needed, work for well-organized volunteer bodies to do in the examination of the financial management of our cities.—*Evening Post*.

Alonso Tweedale, of Washington, D. C., was elected president of the National Association of Comptroller and Accounting officers. The next convention will be held in Birmingham, Ala.