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## Editorial

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# The Journal of Accountancy

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## EDITORIAL

### President Plender's Address

The kinship existing between accountancy in Great Britain and in the United States has seldom been better illustrated than in the address of President William Plender, September 29, at the tenth Provincial Autumnal Meeting of the Institute of Chartered Accountants. The address was published in the *London Accountant* of October 8. With very few changes it could have been appropriately delivered before a body of American accountants, for the topics touched upon are as live and interesting here as they are in England.

Mr. Plender began by noting that the membership of the Institute is at present 4,131, an increase of 80 per cent in fourteen years, and that the present number of practicing and non-practicing accountants belonging to various institutes and societies throughout the United Kingdom, the Colonies and America is between 13,000 and 14,000. He notes the great increase of capital in the United Kingdom and the consequent increase in the demand for the services of chartered accountants in the examination of the accounts of new companies operating in England and abroad. With reference to the United States, he made the following interesting observations:

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It may not be inopportune if I refer briefly to the great growth of our profession in the United States of America and Canada during recent years. In my occasional visits to that continent I see year by year a constant increase in the number of practicing accountants, and a widening demand for their services with banking and commercial firms and companies. There are many Chartered Accountants there belonging to our Institute and to the Scottish Societies, and there has been a steady growth of societies throughout America, legalized by State laws, whose members are described as Certified Public Accountants. The literature which emanates from the members of these societies shows wide professional knowledge and high attainments. Federation in accountancy will some day be consummated in America and take the place of the many separate societies which now exist, and for the welfare of the profession such a step should be welcomed.

The introduction of cost systems, framed by accountants, into engineering, manufacturing, and other commercial enterprises, seems more general in America than with us, and the knowledge flowing from their adoption has led, in many instances, to alterations and improvements being introduced into the means of production and distribution which have been of material benefit to the trader, who previously was without reliable information as to the true relation of cost to selling prices.

It is doubtful if accountants in the United States will share Mr. Plender's optimism in the belief that federation in accountancy may be consummated in America. It is possible that Congress may some day be persuaded to provide for the incorporation of a national organization of accountants, whose members must have satisfied certain high requirements as to experience and training, and whose certificates may be required upon the audits of companies engaged in interstate trade; but it now seems quite probable that the profession of accountancy will be compelled, like the professions of law and medicine, to develop entirely under the guardianship of state enactments. In Canada, however, where political, financial and commercial tendencies point toward centralization more decidedly than in the United States, it is not unreasonable to hope that the day is not far distant when the Dominion Parliament will take steps to create a federal society of accountants.

The effort in England to consolidate the accounting profession, according to President Plender, is making progress. As our readers know, a professional accountants' bill was intro-

duced in the House of Lords in 1909, but the second reading resulted in a tie, opposition having developed among the Scottish and Irish Chartered Accountants, who feared that it would jeopardize their status as practitioners in England. The opposition of these societies has now been withdrawn and Mr. Plender believes that the bill will henceforward have their support.

There has been in the United States some discussion of late with regard to the employment of certified public accountants by the Government in the investigations which it has undertaken in the affairs of corporations suspected of having violated the law. It is generally understood here that the chartered accountant in England has, from the American point of view, won a very strong position in the public's estimation. The following paragraph from President Plender's address indicates, however, that the accountants have not won all the recognition that they desire:

The Government is not unconscious of our usefulness in many directions, but whilst some of us are invited to serve on Departmental Committees, which are from time to time appointed, there are occasions when we have not been called upon where our knowledge and experience might, I may, with all respect, venture to say, have been of advantage, such as the Departmental Committee which made inquiries with reference to the form and scope of accounts and statistical returns rendered by railway companies under the Railway Regulation Acts. Legislation has a tendency to become too parental—to lessen the scope for individuality, and change the fundamental laws of competition which in the past have been healthy incentives for enterprise and inventiveness; and whilst the broadening of the conception of State acquisition may not in itself be to the public detriment, yet changes in that direction require to be carefully inquired into by those whose training and experience qualify them for the purpose, and the probable financial and economic effects of legislation considered and appreciated before a change is made which is irrevocable.

President Plender gave considerable time to a discussion of the duties and responsibilities of the auditor under the Companies Act of 1908, and expressed positive opinions with regard to the limitation of an auditor's duties. For example, he believes that the auditor is not "concerned in the volume of business a company does, whether it is over-trading, whether its working capital is insufficient, whether it is carrying on operations on too ex-

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tensive a scale in countries where credit is bad and economic conditions are unfavorable." Nor should an auditor act or appear to act as a valuer. However, if assets appear to him to have been overvalued, he should say so. In the United States it is generally recognized that the duties of an auditor depend very much upon circumstances. An auditor may certify merely to the correctness of the account keeping, if that is all the directors of a company desire. Frequently, however, audits are made on behalf, not of directors, but of banks or intending investors or dissatisfied stockholders, and in such cases it will not be generally admitted in this country that an accountant has done his full duty if he has discovered merely that the accounts and financial statements are technically correct. The accountant's work under such circumstances combines that of the investigator and of the auditor. The subject is interesting, and for that reason THE JOURNAL reprints part of Mr. Plender's remarks with reference to the auditor on another page, hoping that some of its readers will find therein material for suggestive comment.

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## The Balance of Trade

Financial writers for the press appear to be considerably puzzled by the fact that for the first time in many years the imports of merchandise in the United States are on as large a scale as the exports. Ten years ago the so-called favorable balance of trade amounted to between \$500,000,000 and \$600,000,000. This balance was explained by those who took a superficial view of the subject by the assumption that the industries of the United States had finally reached a stage of development which made possible a commercial invasion of Europe. There was in consequence exultation in this country over our great industrial triumphs and considerable dismay in Europe, the foreign producer being in alarm lest he be deprived of his home market. By the men who have held to these views, and there are great numbers of them in banking and business circles, the present reverse in the international movement of commodities comes as a great shock and is regarded as of sinister portent. It seems to indicate relative weakness in our industrial position and an extravagant fondness of Americans for foreign goods, and the fear is expressed that this country's bank reserves are destined to

suffer from the exportation of gold made necessary by our large importations of foreign merchandise.

The fallacy of the old mercantilistic doctrine that a nation's wealth and prosperity depend upon a favorable balance of trade, is exceedingly hard to uproot from the practical mind. In his "Wealth of Nations," which was published in 1776, Adam Smith very clearly showed that the doctrine rested upon a complete misapprehension of the nature and advantages of foreign trade, and every economist since that time has endorsed his logic and fortified it with fresh illustrations from the experience of nations during the last century. Ten years ago the exports of the United States exceeded the imports by five hundred million dollars because of the large invisible balance of indebtedness created by remittances to Americans traveling or living in Europe, by the payment of freights to foreign ocean carriers, and possibly by the return of American securities to this country. In occasional years the balance is temporarily increased by market conditions, the prices of some important commodities at times being relatively lower in the United States. The present shifting of the balance is doubtless due to two causes: First, the relative high prices of commodities in this country; second, the unusually large investments of foreign capital in this country. The first of these causes cannot continue long in force, for the influx of foreign goods will naturally tend to lower the price level. It is one of the temporary influences affecting foreign trade. The second cause will probably also not be long at work, for it cannot be expected that American securities will continue at their present low level. It is well known in England that many investors desiring to evade the high income tax have during the last year got rid of their holdings of British securities and made heavy purchases in American and Colonial stocks and bonds. These investments have provided our market with an abundance of foreign exchange, so that despite our so-called unfavorable balance in merchandise, gold imports this fall are not improbable. Some people may consider it a bad sign that this country should again be importing foreign capital in quantities so large as to affect its so-called balance of trade. As a matter of fact, it is a good sign, for it furnishes evidence that the foreigners still have faith in our industries and are willing to lend us money for their development.