

What Have We Done, and How?

Address of the President

BY ROBERT H. MONTGOMERY

THERE is a war of ideas sweeping the world. Let us see whether or not any of these conflicting ideas concern us professionally. We are, and should be, in intimate companionship and friendship and confidence with our professional brethren and our clients, and by comparison of views, by new interpretations, we must face the responsibilities and problems of the immediate future. If we fail in this gathering to make at least one contribution to the solution of the abuses or wrongs or ignorance which make this world less livable than it should be, the lessons of fifty years will not have been learned.

As far as civilization itself is concerned, we seem to have made no advance in fifty years. During these years more men have killed more other men than at any time in the history of the world. It may be urged that men killing each other has little to do with our profession, but it has much to do. It was the World War which made business cost-conscious; it was war profits which made tax saving attractive.

Today we are in a hodge-podge of social-security plans and redistribution-of-wealth threats and domination by labor threats, all of which do, and will, have a direct influence on our professional work. I think it worth our while to explore our position, define our aims, and plan changes if we are not satisfied.

A wise general consolidates his forces, examines his position, looks for weak spots, and strengthens his defenses before he attempts a major forward movement. This is particularly true when his advance has been rapid and his troops are untrained. In our profession our advance has been rapid and most of us have been only partly trained, yet today the public accountant is such a vital factor in the business, financial and social affairs of mankind that he cannot be disregarded any more than, in an important matter of health or law, the prudent person would neglect to call in a doctor or a lawyer.

Whether he likes it or not, the professional public accountant frequently is required to appraise the activities, the transactions of others and say what he thinks, let the chips fall where they may. It is not unreasonable that once in fifty years or so, the profession should look at itself and attempt an appraisal. This is my job. I shall try to be as honest about ourselves as the public and our clients want us to be when we appraise our clients.

I shall try to be practical. I see no reason to apologize for the importance of educating the business public to pay big enough fees to professional accountants to enable us to remain as independent as we are today. We are charged with private as well as public duties. Officers and directors of corporations who announce that the public interests are paramount and that the interests of their stockholders must be subordinated should be thrown out. They are as dangerous to sound business practices as are the officers and directors who deny that business is charged with a public interest and who exploit their workers and the public. They are not prudent custodians of funds.

We are told that what we need is a new order that will lift the black shadow of insecurity from the homes of the land; an order that will assure opportunity to youth and comfort and dignity to old age; an order outlawing the brutalities of greed; an order that will give life, beauty, happiness, generosity; an order that will permit expression of the best in man, not the basest; an

order under which wolfish hates will not be a necessary part of the struggle for existence. That slums were allowed to multiply, where dull, unhappy wretches breed hates, because they have never been permitted to realize the bright promise of a democracy. That business was a dog-eat-dog affair in which the lowest and meanest, even though in a minority, were able to drag down the standards and make a mockery of ethics.

The foregoing paragraph is quoted from the sayings of writers, some of whom receive substantial compensation for their brilliant thoughts. Whom are they addressing? Exactly what is their place in the new social order? Accountants are forced to be practical analysts.

Less than twenty years ago, because of an outstanding need followed by an inevitable demand, we faced an enormous increase in our practice.

During the intervening years we have made a surprisingly good record. On the whole accountants have been keen enough and versatile enough to meet each situation as it arose. If government, business, and finance could be counted upon to think and act as they have done, say for the past year, I would stop here and merely repeat what I said in the beginning regarding consolidating one's forces and one's resources. But I also said in the beginning that in the world today a war of ideas is being fiercely contested. We cannot be sure that our relations with government, business and finance will remain static.

FIFTY YEARS AGO

Fifty years ago in the United States the public accountant was little known, little recognized, little wanted. His virtues were unheralded, unsung. He was little known because his kind were few and because enterprises were relatively small and in most cases their accounts as well as their affairs were supervised by the owners. He was little recognized because the matters which were referred to him at that time were relatively unimportant and this unimportance tended to reduce him to the level of a clerk. He was so little wanted that, after he had been retained, usually there was pressure to get rid of him and impatience to get his report.

Even when he was most needed it was feared that the employment of public accountants would be looked upon as evidence of suspected fraud or irregularity, losses and doubt regarding financial strength. Even when business grew bigger and public accountants were a little better known there was a reluctance to call one in. As late as thirty to forty years ago many investigations by public accountants were made secretly, often at night and on Sundays.

Thus the early experience of the profession in the United States was filled with obstacles which were strong enough to discourage all but the toughest physically and the least nervous mentally.

The basic need was there all the time. What forces were at work to bring about the drastic change which has taken place? I think all of the elements entering into the growing recognition of the profession can be reduced to a few words.

1. The written records, the accounts of business transactions in a vast number of cases, were imperfectly, inaccurately or fraudulently stated. And many still are. Consequently the public accountant's first duty was to *fight figures*.

2. It is astounding how many relevant figures may be omitted from records of business transactions, how many debits find their way to the credit side of ledgers, and how many debits are entirely omitted – so that public accountants must *find facts*.

3. The third compelling reason for the employment of public accountants, and much the most important, is his duty, after fighting the figures and finding the facts, to assemble the

figures and the facts and to *tell the truth* about them, with clarity, conciseness and intelligence so that he who runs may read.

We must admit that the steps in our ascent were not easy ones. When recognition is grudgingly accorded it is more vulnerable than when it is gladly acclaimed. We cannot compare the accountant with the doctor of divinity or the doctor of medicine. We put these practitioners on a pedestal and we resist all attacks on them. We come nearer to the lawyers; who under any circumstances gladly calls for a lawyer?

We are here today because there was and is a need for us. That demand will continue as long as people feel a need to know the truth, whether or not it hurts.

TELLING THE TRUTH

Eternal vigilance is the price of accounting as well as of liberty. And so I see very little change from year to year in the more important attributes of the public accountant. For more than 48 of the 50 years under review I have intimately known the leaders of the profession in this country and in England and Scotland. Then, they were fearless seekers for the truth. Fifty years ago, poor as they were, no power on earth could have swerved them from their search. Nearly 50 years later, as I look into the faces of my brothers in our profession from far and near, from the ends of the earth, I see in these new faces the same proud determination, the same courage, the same stubbornness, the same men I saw nearly 50 years ago. And to those who are not here I extend a grateful prayer. I don't want to have anything to do with supermen. I want men in the profession with simple minds and indomitable courage to seek and tell the truth.

Our profession always has had a vision—this urge to find and tell the truth—and we should cling to it and continue to strive for its accomplishment. I do not want to see our growth depend on anything else than that which has made us what we are today. We shall retain our strength just as long as we retain our independence—no longer.

If anyone outside of the profession—governmental or private, client or friend—is stronger than we are and is able to tell us what to do, is able to influence a statement or a report against our best judgment, from that moment the profession will deteriorate. It is not so today.

In order to tell the truth there must be some detachment from one's immediate environment; from the opinion of neighbors; from ambition, money, power, fame, comfort, security and ease.

Have we the courage to proclaim the truth, or do we shrink from the struggle?

THE PROTECTION OF INVESTORS

The protection of the investor is an interesting subject. The average investor longs to be protected to a much greater degree than will ever be practicable. He craves to buy low and sell high; he will borrow all he can, and he never reads a balance-sheet nor an auditor's certificate. This is an accurate description of an average investor. Of course, he should be protected! Changing the form of a balance-sheet will not do it, nor splitting surplus into three or four divisions. The public accountant has done his part in finding facts and telling the truth about the accounts. The securities act and the securities-exchange act have helped a lot.

But there always will be two or more concerns in the same line of business, with the same assets, one or more losing money and one or more earning profits. It is largely a question of management. I doubt if the day will ever come when the public accountant can certify in any

way whatever to the future uses of assets. And if he is not able to guarantee future good management, he cannot fully protect investors.

We went through a period when there was much talk about accountants as business and financial advisers. It happened to be at a time when business was good. Advisers weren't much needed. When the depression came there wasn't so much talk about professional advisers. And yet that's when they *were* needed. If a professional accountant really is a good business man, he should go into business. He will be happier and will make more money.

I don't like to have charged against accountants virtues or abilities which they do not possess. It is a liability, not an asset. It leads to expectations which cannot be realized. It makes accountants look foolish, if not worse. We would like to be taken for what we are and no more.

As alluded to elsewhere there is a feeling abroad that public accountants are able to protect investors from mistakes which they would not make if they would pay more attention to our reports. I hope that is true, but the implication is dangerous.

We have to deal with conflicting elements, with the passion for quick profits and the assurance of safety. It is true that business practices and ethics are growing better, but I doubt if there is any change today, as contrasted with fifty years ago, from the conflicting elements I have mentioned. What can we or could we do with the stock which sold at \$225 a share in 1929 and \$2.25 a share in 1932. What could and what did a Congressional committee do? In my opinion, the Congressional committee which recently purported to investigate the transactions of bankers, brokers and investment trusts did little more than to rehash old stuff. Little of anything constructive was accomplished. Some of the witnesses attempted to point out that good management was the most important factor to be considered, and good management could not manage if hampered at every turn with intolerable restrictions.

Real protection to investors would be to explain that a stock earning \$2 a share selling at 100 probably is too high, but who can argue with one who tells you that nevertheless it will sell at 150?

If accountants are to have any part in assisting bankers and brokers to avert another panic, I think it will have to take the form of some publicity of earnings per share. For example, would it not check unwise speculation if anyone buying stock selling at more than twenty times current earnings were required to pay for it in full?

In thousands of cases, sales of businesses have not gone through because the astute prospective buyer has employed certified public accountants. But the casual investor is not astute. Warnings mean nothing to him. The more fantastic and improbable the story is, the more he bites. A stock is selling at 120. Tell him it should go to 130, and he doesn't even thank you and of course he does not buy. Tell him it will go to 400, and he kisses you on both cheeks, mortgages his home and buys freely.

A decent profit must be the first thought of management, and the management should be all that the word "decent" implies. There must be no unfair competition, dog's wages, long hours and child labor. If the management can't be decent, it must be changed. In many businesses decency has been the controlling factor for as many years as the businesses have existed. The business man or capitalist who wants to fool the public should not be able to retain a reputable accountant.

Isn't the time ripe when he *must* have one or be prohibited from publishing any financial statements? It is done now in small part. It will be said, "What did the certified statement do in 1929 to protect the investor?" To that we have a complete and satisfactory answer. Stocks were being purchased by the millions of shares in companies which were earning one per cent, or no

per cent, as clearly set forth in certified statements. Those with judgment, experience and training must go after privilege, exploitation, greed and unfairness. Can we see the meeting point of idealism and unfairness?

The government sooner or later *must* recognize the unfairness and unworkableness of taxing annual profits. It has been responsible for much of the attitude of business men to earn big profits when the going is good, to prepare for the inevitable lean years. Who can blame them? Who would not do the same?

If business is assured that profits can be averaged over a period of years, it will help in paying more stable wages. There should be an immediate stop to the taxation of annual profits. It is not enough to tax the high profits of one year at high rates and permit the carrying forward of losses, although that practice was permitted until Congress went hay-wire and repealed it. Each year's tax returns should be averaged with the preceding four years.

I wish to quote in full a recent editorial from the *New York Times*.

LABOR AND MANAGEMENT

“The Yale & Towne Manufacturing Company has announced that it is discontinuing its Detroit plant, which had employed 400 or more workers until it was closed by a strike on March 9. ‘Although we have been told repeatedly by the U.A.W. (United Automobile Workers) that they knew more of our affairs than we did,’ remarks the company’s statement, ‘the fact is that this operation has not been profitable.’

“Officials of the union reply that the company’s net profit in 1936 was \$2,000,000. The company’s ‘total income’ in that year was \$2,147,000, but after deductions for depreciation and taxes there was left an actual net income, in fact, of \$1,211,000. That the company’s business was, on the whole, profitable, moreover, does not necessarily indicate that it made a profit on its Detroit plant.

“The incident serves to emphasize that in the era of collective bargaining that lies ahead labor must rise to its new responsibilities by a closer study and a more sympathetic understanding of the problems of management. A union does its members a sorry service when it insists on an increase in pay which, because it cannot be met, results in the closing down of a plant.

“What is needed above all is a sounder understanding of the relation of wage rates to profits, to prices, to production, and to employment. Wages depend primarily upon the productivity of labor. Collective bargaining can affect them within a certain margin, but beyond that they can be increased only as production and earning power are increased. When the attempt is made to push wages beyond the point that the earning power of the workers justifies, several results follow. Profit margins are threatened. If they are wiped out, plants must shut down and employees are thrown out of work. If, to avoid this, prices are raised, another set of difficulties develops. The higher prices reduce the purchasing power of the public; that is to say, of other workers. But, worse, higher prices lead to reduced sales, which means lessened production, which means a smaller demand for labor, which prolongs or intensifies unemployment. Intelligent understanding of management problems on the part of labor can maximize wages, production and employment. If it lacks that understanding, the results can only be tragic for labor itself.”

Investors should be protected, and so should working men. The unions usually do not perform their part well. They are misled by inaccurate statements regarding profits and dividends. Isn't there a place for the public accountant *before* the strike is called? Why shouldn't every labor union be required by law to retain a public accountant in every dispute in which capacity of a business to pay higher wages is an issue?

We are called upon to protect investors from the unscrupulous business men; more—it is demanded of us. Is it possible for the accountant to protect or help protect the investor or the public from the rapacity of unscrupulous labor leaders?

THE PROFESSION CANNOT SURVIVE UNDER A DICTATORSHIP

The professional accountant has played a small part in Federal or state government finance. Roughly speaking the government books are kept the same as the country storekeeper keeps his. A simple cash book is enough. A payment is a payment, whether for running expenses or for the erection of a new building.

If the government embarks further into business and finance, there will be less for the professional accountant to do.

In some government departments which deal with private enterprise there is unjustified criticism of their accounts and accountings, even though there is little to show that the government sets a good example. "Physician, heal thyself" applies in this case.

Many years ago I had my first experience in how governmental accounts are kept. The city of Philadelphia owned and operated its gas works. Annual reports were submitted which showed small surpluses. When an offer to operate the works was received from a private corporation, those opposed to the offer quoted the city's figures. Obviously an independent report was required. It was found that the city's published reports included the gross revenue from operation, but were woefully lacking in mentioning costs and expenses. Many millions of bonds were outstanding—no interest was included. No mention was made of depreciation of old buildings and equipment, nor of the cost of replacements and extensions. The city treasurer maintained many collecting offices, but this expense was taken care of in the treasurer's budget. And so with street lighting and many other direct and indirect costs and expenses. The comparison was so striking that the public for once was startled into an acceptance of an offer from a private concern.

Throughout the nation today there is a similar concealment of facts. Actual costs of government activities are concealed. If the facts were known, I believe it would shock the nation.

I do not expect that there will be any sudden call on independent accountants to make known the truth regarding governmental accounting. My reason for discussing this point is that it is unthinkable that there should be an extension of the governmental method of keeping and publishing accounts. But we can't hope to have the government practice what it preaches.

It has been suggested that private corporations do not always furnish to the public all the information to which the public is entitled and that professional accountants are not insistent enough on such disclosures.

Any law which imposes dictatorial mandates of irresponsible officials is tyranny—nothing else. It may be Communism, Nazism or Fascism. Mussolini says the state is absolute. We do not agree.

As without vision a people would perish, so without courage the profession of the public accountant would perish. The profession of accountancy cannot survive or flourish under a dictatorship. For its growth, its strength, its maintenance, it requires free air, free thought, free speech.

In the fifty years of the growth of the profession in the United States we have lived and thrived in a free atmosphere. In the early days of our struggles, our trials and our tribulations, we were stimulated and strengthened by the friendship and we were educated by the experiences of accountants who, like us, were born in a free atmosphere, who thrived in England and in Scotland where free speech, free religion and free air were their birthrights. They too had courage, but courage would have helped them little if they had had to be martyrs.

I say again that our profession cannot exist, much less flourish, under a dictatorship. Perhaps religion may. Time will tell. Enlightened medicine may. Time will tell. But our profession, as I see it, today requires acquiescence, if not actual support, from the government as well as from the public. Accountants as martyrs will not arouse the enthusiasm nor the support of the people. The truth about accountants must be published, not suppressed. It is one thing to cry moral truths in the wilderness and another to cry truths about balance-sheets. Under a dictatorship we would not lose our courage, but we could not use it.

As Chief Justice Hughes said: "Democratic institutions depend for their maintenance and success upon the processes of reason as opposed to the tyranny of force." Our profession has developed in a free country, step by step, always by processes of enlightened reason. We will survive and advance only by continuing to live in a free country and by retaining our courage, our integrity, our independence.

Where government can put its hands on one's statements and convictions, the people are in danger.

So far, in this country we have not been interfered with in our duty to tell the truth about the accounts of private enterprises. On the other hand, I know of no one who could tell the truth about our Federal accounts, even if the truth were permissible. In the case of some states and some cities highly illuminating statements are furnished to the citizen-owners—maybe 5 per cent of them; the other 95 per cent are mysteries. There is much to be done to correct this concealment of facts, and it should be done quickly.

In the case of labor unions now handling money in the tens of millions, the mystery is still greater. How much do they collect? How much do they spend? We do know that statements, even incomplete ones, are not furnished to members. Substantial dues and contributions are enacted from members of unions. The members and the public are entitled to far more information than that now furnished by the officers of the unions. In its zeal to protect investors, why did the national government fail to compel some sort of accounting from labor unions which do an interstate business?

THE TRAINING OF JUNIOR ACCOUNTANTS

We have honestly tried to train those who will follow in our footsteps. Only by a united group of men of ability, of outstanding character and high ethical ideals, imbued with a sense of public service, are these qualities best instilled in the youth that is to take its place in the direction of our profession and our organization in the future.

The juniors who come to us usually are told that they must have some practical experience in public accounting before we can employ them. Which came first, the hen or the egg?

I am afraid that, in the United States at least, juniors without practical experience expect starting compensation entirely out of line with what they can earn during the early years of their employment. I wish we could do something about it which would be helpful. During my term of office I think that I have been asked oftener for a solution of this problem—or at least a constructive suggestion—than of any other. Would it not be practicable to study seriously and continuously what might be done? Our committees have been the making of the Institute. How about a committee on “How can aspiring juniors get jobs?” In any event I hope that some of our members will discuss this question in *The Certified Public Accountant*.

THE INSTITUTE'S SECRETARIAT

I would like to see formulated a long-range program for our secretariat. It should be planned on a scale which will permit more service to the individual practitioner and to students. The secretariat should not be submerged in any way.

What I mean is that there should be a continuous staff of specialists, who feel assured of their jobs and who can feel that the work they are doing will not be changed very much with changes in officers and committees every year or two. Under our present system an election of new officers and the appointment of new committees tends to interrupt the technical development of the Institute. Certain of our activities should be continuous and impersonal. It is these to which I allude. I call your attention to the secretary's report for the fiscal year which ended August 31st. I would like to see most of the activities reported upon continued without waiting for the appointment of new committees.

I base this suggestion on my own observation and experience. I merely present it for what it is worth.

After long years of effort we have united our profession. From Maine to California and from Washington to Florida, the Institute is recognized as the only national representative body of professional accountants in the United States. We cannot improve on that situation. We are under a grave responsibility to maintain it. We can only do so by constant vigilance. The officers and governing body must not relax their efforts at any time. It is not an easy task to maintain the respect and confidence of five thousand members of a highly critical profession. But if the officers and governing body display energy, tolerance and reasonable intelligence, I am sure the members will respond with reasonable tolerance and support.

I do not ask for standardization of accounting practice or procedure. That would mean the substitution of fixed rules for opinion and discretion. In fifty years we have learned much. If we had been standardized or unionized at any time during those fifty years, I am sure we would have lost one of our choicest possessions—independence to express our convictions in each particular case submitted to us, and most cases differ from every other case.

WHY NOT STAND STILL?

In the coming years shall the accounting profession keep what it has gained in fifty years, fall behind or make further progress? It may surprise you to hear that I shall be satisfied if we can keep what we have gained.

I am afraid that I shall not follow the usual procedure when I refer to the future. Some will be shocked. When I look down upon you from my mansion in heaven fifty years from now, I shall be content if I find our profession then has the same prestige as it has today. I shall know that you have retained your courage and that you have kept the faith. If you have gained the whole world and lost your souls, I shall mourn bitterly even though my place in heaven is permanent.

We have been told so often that we cannot remain still, we must go forward or backward, that we are inclined to believe it.

Nevertheless, I ask the profession to stand still. I do not want it to change. It does not rest upon a foundation which has been built up gradually. It has today the same foundation it had fifty years ago. Our profession stands for the courage to tell the truth about accounts.

It is not a profession of supermen. One reason why I want the profession to stand still is that there is a growing tendency to expect more of the public accountant than he can perform. The values assigned to fixed assets on balance-sheets should be read and used in the light of reason. But how often is that the case?

If difficulties arise, we find that the important factors, the future uses and the management of the assets, were conveniently ignored.

We must stand like the Rock of Gibraltar on our independence. On this we must hang together, or we will hang separately. Fifty years ago professional accountants did not consult with each other regarding controversial procedure. To a great extent they do today, but not enough. I look on this as a vulnerable element in our position. I think we should strengthen it.

Another matter of concern is that of liability. Fifty years ago there was little or no thought in this country of the financial liability of public accountants. Today it is a problem with which we must concern ourselves.

POLITICS

In an atmosphere charged with political activities, including some activities with a fighting spirit, I am moved to explore the part of the certified public accountant in politics. We are voters as well as practitioners. Needless to say there will be no word of partisanship in my comments and suggestions. I will have failed in my purpose if these words can be construed to apply to one political party more than another.

During and after the World War there were so many rapid and radical changes in the economic and social structures of our country that the professional accountants were barely able to keep pace with the changes. Accounting *principles* do not fluctuate with fluctuations in business and financial conditions and methods. Accounting *principles* have survived pre-war, war and post-war cycles, and laws such as anti-trust, N.R.A. and others which vitally affected business methods and practices. We have survived the Securities and Exchange Commission, which has done a good job. I repeat that, notwithstanding the violent fluctuations in business conditions, changes in political philosophies and notable changes in accounting practice, accounting *principles* have not changed.

These economic changes brought about, not only by statutory but by economic laws, have resulted in an increase in the volume of our practice and in our prestige. We have been in that happy position of seeing the demand greater than the supply. We have been peculiarly fortunate in that there have been few instances of failure to measure up to the high duties and responsibilities of the public accountant. These duties and responsibilities are so high and the burdens so great that it would be natural to expect a greater percentage of failures than has been the case.

Can the profession stand the strain of more and greater responsibilities? Both political parties have declared for social and other legislation which will impose heavy burdens on business. We have a national debt which must be paid. We have an army of office holders who will strive to increase and will not consent to reduce that army.

We have retained our independence; we have kept the faith. We have upheld the high traditions always associated with the accounting profession.

We have been members of different groups and organizations; we have held different ideas regarding administration and procedure. Accountants are bound to differ in matters of this kind. We always have and always will. But we have decided that we will have only one national organization and that we will not divide our strength and our influence.

A REDEDICATION

In all matters affecting principles and standards we will present a united front. I propose that we celebrate this occasion which marks the fiftieth anniversary of the bringing together of the public accountants of the United States by dedicating ourselves to a stern fight to protect our profession against all that may be detrimental to its high aims. Let us determine to maintain and increase the confidence in which we are held by the business public.

I think there is in governmental offices and in labor organizations, as well as in business, a field in which the independent public accountant alone can pass upon disputed financial issues without fear or favor and without political bias. We do not need to fight for the obvious precept that custodians of public funds, private property and trust estates should not audit themselves. It has been done, but with such disastrous results to the owners and beneficiaries that in due course it will be an unthinkable practice.

We cannot hope to make progress unless we *fight* for the ideals and standards which have come to us from the founders of the profession. There are a thousand obstacles to the attainment of any worth-while good. Let's *fight* to maintain all that has come to us which is good and to eliminate everything inimical to progress.

Let's fight to raise the standards of the Institute in every way. Let's fight to suspend or expel any member who is guilty of conduct unworthy of a member.

Let's fight for a sane Federal income-tax law.

Let's fight any effort in any state to dilute or weaken the C.P.A. degree.

Let's fight to strengthen state laws and otherwise assist state societies.

Let's fight for sound business practices. Don't let's wait until unsound practices creep in, are reflected in balance-sheets and embarrass the accountants who are asked to certify to them.

Let's fight any tendency, private or governmental, to break down the independence of the certified public accountant by rules or regulations or business pressure.

Let's fight for honest accounting, clear financial statements and full disclosure of all essential facts.

Let's fight anyone who seeks the assistance of a certified public accountant in the issuance of any kind of misleading statement.

Let's fight anyone who thinks that one certified public accountant will supplant another who has done a good job.

Let's fight for easily understood accounting terms. Let's fight weasel words.

Let's fight bunk whenever and wherever it appears.