

# Monetary Times

Trade Review and Insurance Chronicle  
of Canada

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## ACCOUNTANCY AS A PROFESSION

In order that the certificate of a recognized chartered accountant may be accepted as an authoritative statement, it is necessary that a standard be maintained by the profession such as is maintained by the legal or medical professions. Business may temporarily be lost by too great strictness on the part of practising accountants, but this cannot fail to react to their final advantage. Once an auditor's statement becomes recognized as a correct and independent description of a company's financial condition, the value of these statements and the possibilities for increased business on the part of accountants becomes apparent.

An unusual action was recently brought in a United States court, whereby two members of the American Institute of Chartered Accountants took action against four other members who constituted a firm, for certifying to a balance sheet which was not correct. The complaint alleged that items of approximately \$230,000 due from associated companies and \$150,000 due for officers and employees had not been separately shown, but had been included under a general heading "Accounts and Notes Receivable." The total including the above items was slightly in excess of \$1,000,000. The firm had prepared a more or less detailed audit report, and a condensed balance sheet, both of which were signed and delivered to the client. It was alleged that even the detailed report failed in several instances to state accurately the transactions with the associated companies as separate and distinct from regular debtors and creditors. It was the condensed balance sheet, however, which contained the

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most serious errors, and this was the statement which was shown to the banks with which the company had business, and the banks accepted it as being correct without securing any explanation of the items. Complaint was also entered that the inventories were shown at market instead of at cost price; on the liability side a reserve was included to reduce the inventory from market to cost, but it was placed along with other general reserves in such a way that the bankers considered it as a general reserve out of surplus. Raw materials under process and finished stock were also shown in one total as merchandise. An item also appeared on the balance sheet as investments, which consisted chiefly of stocks representing ownership of subsidiary companies, except about 20 per cent. of the total which consisted of treasury stock.

The defendants acknowledged the balance sheet produced and argued that there had been no misrepresentation or intent to deceive, the question of arranging the balance sheet being a matter of technique rather than of principle. The member who had actually signed the balance sheet was, however, suspended for six months, and the other three members of the firm against whom complaint had been made were suspended for three months.

The importance of this case consists not in the technical charges upon which the members were convicted, but rather in the principle of mutual responsibility among members of the profession. It is, of course, not an easy matter to construct a condensed statement which will accurately describe a company's condition. The intent to deceive, however, or the failure to display reasonable skill in the preparation of these statements should be punishable by law, and it is to the mutual interest of the profession to see that a proper standard is preserved. Moreover, where a condensed statement conceals an unusual condition of business, it should not be certified to without the necessary explanation.