

THE *Kentucky* CPA ACCOUNTANT

BULLETIN OF THE KENTUCKY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Vol. 2

JUNE, JULY, AUGUST, 1950

No. 5

SOCIETY FAVORS NEW COMMERCE COLLEGE

At the Society's Mid-Century Meeting on June 26, 1950, a resolution was adopted calling upon the Board of Trustees of the University of Louisville to establish a College of Commerce, to supplement the excellent educational facilities heretofore available to Kentucky's future businessmen only through the University of Kentucky College of Commerce at Lexington or through Bowling Green College of Commerce. The resolution noted that a similar request had been addressed to the Board of Trustees of New York University by the New York State Society of Certified Public Accountants exactly fifty years earlier. Text of the resolution appears on page 8 of this issue of the *Kentucky Accountant*.

Grogan Reports . . . Simpson New President

A solid, substantial "growth in leadership" on the part of the Kentucky members of the accounting profession was recorded at the Society's twenty-sixth annual meeting, held at the Audubon Country Club in Louisville on Monday evening, June 26, 1950. Retiring President Waller Grogan, reporting on the Society's progress during his administration, said, "Dignity is lent one's profession through unselfish contributions given without hope or expectation of compensation in the work that the professional organization undertakes to carry on." (The full text of Grogan's report is reprinted on page 2).

An amendment to the Society's bylaws increased the number of directors from twelve to fifteen. The following were then elected: Three-year terms: Robert L. Collins, William Cotton, Thad J. Schuler, Charles M. Wheeler, Wilbur R. Williamson. Two-year term: Joseph P. Jones, Jr. One-year term: Kenneth W. Stringer.

Another amendment provided for an initiation fee to be paid by incoming members at the rate of \$1.25 for each full month remaining in the Society's fiscal year at date of application.

At a brief special meeting, the directors elected W. Kenneth Simpson as President and W. R. Williamson as Secretary and Treasurer. Other officers elected were: Jess C. Paris, 1st Vice-President, and J. Wesley Huss, 2nd Vice-President.

Directors Plan Year's Work

At a meeting of directors on July 18, 1950, in Louisville, President W. Kenneth Simpson announced the appointment of committee chairmen and members for the year 1950-51. (Complete list will appear in the next issue.)

By unanimous vote it was agreed that immediate steps should be taken to hold the Society's INSTITUTE ON ACCOUNTING at Lexington in 1951, if the University of Kentucky would again join the Society in sponsoring the presentation of this outstanding event. With reference to the University of Louisville's invitation to hold the Institute on that campus, possibly in alternate years, President Simpson was instructed to thank U. of L. President John W. Taylor for his offer, and to explain that the directors would be pleased to consider holding such an institute in co-sponsorship with the University of Louisville at such time as a recognized College of Commerce is established and functioning there.

President Simpson reported that he had sent copies of the U. of L. College of Commerce resolution to President Taylor and to the presidents of the Louisville and Kentucky Chambers of Commerce.

In view of the fact that the Society's income slightly exceeded expenditures during the past year, the directors voted to request a voluntary contribution of \$3.00 per proprietor, partner, and staff man from firms and individual practitioners this year, instead of the \$5.00 per person originally contributed in 1949-50.

THE KENTUCKY ACCOUNTANT

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**KENTUCKY SOCIETY OF
 CERTIFIED PUBLIC ACCOUNTANTS**

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Vol. 2 June, July, August No. 5

The KENTUCKY SOCIETY of
 CERTIFIED PUBLIC ACCOUNTANTS

OFFICERS

W. Kenneth Simpson.....	President
Jess C. Paris.....	First Vice-President
J. Wesley Huss.....	Second Vice-President
W. R. Williamson.....	Secretary-Treasurer
Earle B. Fowler.....	Executive Secretary

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John E. Brown.....	Louisville
Robert L. Collins.....	Henderson
William Cotton, Sr.....	Louisville
Charles W. Erskine.....	Louisville
Sam W. Eskew.....	Louisville
Gordon Ford.....	Louisville
Waller Grogan.....	Louisville
J. Wesley Huss.....	Louisville
Joseph P. Jones, Jr.....	Louisville
Jess C. Paris.....	Lexington
Thad J. Schuler.....	Louisville
W. Kenneth Simpson.....	Danville
Kenneth W. Stringer.....	Louisville
Charles M. Wheeler.....	Louisville
Wilbur R. Williamson.....	Louisville

Call for Bank Audits

Worried about recent bank embezzlements, the Federal Deposit Insurance Corp. is urging bank directors to insist on independent audits by outside accountants. Although no U. S. bank has failed in six years, the F.D.I.C. has had to move in on embezzlers surprisingly often during that period. It found \$200,000 missing from one Idaho bank whose total deposits came to only \$600,000. The F.D.I.C. usually absorbs the net shortage in such cases and merges the plundered bank with a neighboring strong one.

—*Newsweek*, May 8, 1950

With the passing of H. H. Timmering, public accountant, Louisville, on July 25, 1950, the accounting profession in Kentucky lost one of its most respected members.

Halfway Mark Mid-Century Progress Report

By **WALLER GROGAN**
 Retiring President

Although this is but the twenty-sixth annual meeting of the Kentucky Society of CPAs, this year marks the midway of the 20th century; and it marks the midway of the first century of our profession. In the past 50 years the accounting profession has grown tremendously in stature—from infancy to the maturity of a recognized profession. With pardonable pride we should view the progress thus far made. But I would admonish you that we have only reached the *halfway mark*—that greater progress is yet to be achieved; that we will at times be called upon to defend our profession from unwarranted attacks, particularly from those who allege that our activity encroaches upon or overlaps another field. We should look to the next 50 years with the firm belief that both individually and collectively it will result in greater achievement.

I am deeply conscious of the honor you have bestowed upon me to serve as your President during the past year and am proud of the opportunity afforded me. The activities of your Society have been many and varied and have been efficiently reported in our monthly publication—*The Kentucky Accountant*. I shall try to cover briefly the signal developments of the Society and its members during the past year.

Membership

During the past year we have admitted forty-one new members, have had five resignations by reason of moving or other causes, and have had to drop three out-of-state members for failure to pay annual dues. We have been fortunate in that no member has been removed from our midst by death. Total membership at May 31, 1950, was 236, composed of 208 Resident Members and 28 Nonresident Members. With but few exceptions, every practicing Kentucky CPA who lives or works here in our state is a member of our Society.

The Work of the Society

During the past year—in August—the Directors of your Society passed upon a plan known as the Voluntary Contribution Fund by which all practitioners represented in the Society were asked to contribute at the rate of \$5.00 per capita—that is, for partners and active staff accountants. From this source we received \$1,315 which has been of great assistance in the work of the Society with

the aid of the Society's Executive Secretary. I believe sincerely that our Society and the profession have made great strides in the past few years, and I give much credit for our achievements to the efforts of our Executive Secretary, Earle Fowler. I think the operation of his office has been a success and that he has been of immeasurable help to the profession in Kentucky. I am very gratified over his ability to edit and publish our *Kentucky Accountant* which is issued monthly except that the June, July, and August issues are usually combined in one. I believe that this—as one of many obligations—by the Society to its membership has been fulfilled. It represents a tool toward the accomplishment of the purposes of the Society and has been an instrumental means of both education and understanding among members.

During the past year we have continued to improve our meeting programs and have strengthened our relations with other professional bodies. We are indebted to Gordon Ford as our very able Chairman of the Committee on Meetings. I believe that we have had some of the best meetings of our Society during the past year. Our first meeting of the fiscal year was held September 23 when Thruston B. Morton, chairman of the board of Ballard & Ballard and member of Congress from the Third Kentucky Congressional District, was our guest speaker whose subject was, "The Federal Tax Dilemma." Mr. Morton seemed very glad to address our Society and he expressed his thoughtful appreciation of the efforts made by CPAs to secure a complete overhauling, revision, and simplification of the Federal Tax structure. He invited more advice from professional tax men in the work of tax revision and the removal of inequities.

On November 22, 1949, our Society had its first joint meeting with the Louisville Bar Association, at which time Lee P. Miller, president of the Citizens Fidelity Bank and Trust Co., addressed our Society on the subject of "Recognizing Trust Opportunities—a Field for Lawyer-Accountant Co-operation."

I think everyone has agreed that we had a most successful "White Christmas" party on December 9.

On January 24, Patrick M. Meloan, Investigation Supervisor, Wage and Hour Division, U. S. Department of Labor, addressed our meeting, at which 105 were in attendance. He discussed the technical changes in the new Wage and Hour Law and answered many questions. This was a joint meeting with the Kentucky Society of Public Accountants.

On February 28, 1950, Honorable H. Clyde Reeves, Commissioner of Revenue—an ever popular speaker with our Society—spoke on the Revenue Department's tax collecting

procedures and administrative policies. We have had almost a capacity crowd at each of these meetings, and this evidence of the interest of our members is gratifying.

State Legislation

During February the Kentucky Legislature enacted Senate Bill No. 89, the only measure introduced into the General Assembly which affected our profession. Senate Bill 89 increased the annual public accounting permits of both CPAs and PAs from \$5.00 to \$15.00 per annum and gave to the State Board of Accountancy discretionary authority to revoke a certificate or registration following three years of nonpayment of the annual license fee. A majority of our members expressed themselves as favorable to this measure. We have had few objections and those objections have stemmed largely from some holders of the CPA certificate or the PA permit who are not engaged in public practice. I believe that I express a majority feeling in stating that whether or not one is in public practice he should contribute to the advancement of his profession—that he should not have a "free ride" because his interests in the profession are not as great as those of most of us, and that the least he can do is to consider his annual fee a contribution to the advancement of the profession, even if he makes no other *more valuable contribution*.

On March 31, 1950, following a custom of the preceding year, a spring meeting was held in Owensboro at the Owensboro Country Club, and as usual our host, J. O. Boswell, made it possible for all to have a good time and an excellent meeting.

Institute on Accounting

Perhaps the most significant event of the year and one in which I am sure we all have a common pride was the First Institute on Accounting held in Kentucky. The success of this meeting has been uniformly expressed. Discussion and plans of this meeting have been going on for a long time and on September 23, 1949, at a meeting of the directors, I appointed the following committee; Robert D. Haun, chairman, Sam Eskew and Gordon Ford of Louisville, and Jess Paris of Lexington. As the meeting was held in the Guignol Theatre in the Fine Arts Building of the University of Kentucky, much of the work in planning fell upon the shoulders of two Lexingtonians, Bob Haun and Jess Paris, who did a magnificent job. It was a greater success than my hopes had entertained, and I still marvel at the fact that our committee was able to obtain these nationally known speakers. Professor W. A. Paton, of the University of Michigan, and

Carman G. Blough, Director of Research of the American Institute of Accountants, spoke on the first day along with George S. Allen, vice-president of one of the largest banks in the United States, the Harris Trust and Savings Bank of Chicago; and there also spoke Professor Charles J. Gaa, of the University of Illinois. On the second day (Wednesday) the Kentucky State Bar Association joined with our Society in sponsoring the Tax Practitioner's Forum. This day included addresses by Merle H. Miller of Indianapolis, a nationally known tax lawyer; Aubrey R. Marrs, head of the Technical Staff of the Bureau of Internal Revenue in Washington; William J. Casey, chairman of the board of editors of the Research Institute of America; and our "local boy," Bart A. Brown, vice-president of the Citizens Fidelity Bank & Trust Co. On the first day Gordon Ford and Kenneth Simpson, CPAs of Louisville, presided at the morning and afternoon meetings. The Wednesday morning session was conducted by your President and the afternoon session by John L. Davis, Lexington attorney who is president-elect of the Kentucky State Bar Association. Two hundred persons registered for our first Institute, of whom seventy were members of our Society. Others were lawyers, trust officers, revenue agents both Federal and State, and University students.

We are all indebted to our committees for their tireless and unselfish effort in the service of your Society during the past year. I wish to acknowledge this debt and on behalf of the Society to express appreciation and thanks. I believe that honorable mention is deserving to the Society's Committee on Governmental Accounting, of which Jack Kercher is chairman; to Maurice Luker and his members of the Committee on Professional Ethics, which has had to deal with three rather delicate situations during the past year; to Paul Halloran for his diligent efforts on the Membership Committee; and to L. B. McIntire, chairman, and other members of the Accounting and Auditing Committee who have so carefully considered various technical problems. I also wish to acknowledge our appreciation to Charles Erskine, who as a member of the Accounting and Auditing Committee has prepared an audit of the Society's books and records for the twelve months ended May 31, 1950.

One of our members has received distinguished recognition from our national body, the American Institute of Accountants. Sam W. Eskew, Member of Council, was chosen as one of two members elected to the Institute's Committee on Nominations—the other member being Percy Brundage, the retiring president of the Institute. Sam was also elected by the Institute to serve on

its trial board and these recognitions pay a well deserved tribute to him for his important services to the accounting profession, both locally and nationally, through the years. Sam has ably represented us as chairman of the Committee on Co-operation with the Bar Association and the Committee on State Legislation. Others of our members who have been named members of the Institute's committees are L. C. J. Yeager on the Natural Business Year; Gordon Ford, Harrar Taylor, and E. T. Alexander on the Membership Committee; and Austin Gresham on the Federal Tax Committee. Gordon Ford pointed out that as of August 31, 1949, Kentucky led all states in Institute membership.

As President of your Society and as ex officio member of the Council of American Institute, it was my privilege to attend the Spring Meeting of Council at the Greenbriar Hotel in White Sulphur Springs. I was very deeply impressed by the magnitude and seriousness of the work carried on by the inner sanctum of the Institute. Meetings were held every morning until 1:00 p.m. and one night meeting was held. The ability of those who direct our profession on a national scale was most impressive. T. Coleman Andrews, president-elect of the Institute, and numerous others expressed the opinion that this was the best Council meeting they had ever attended.

I sincerely appreciate the privilege of serving as your President. It has taken time; and as we grow it will continue to take more and more time, but I still regard it as a privilege, and I believe that one of the more important ideals in the life of a professional man is his contribution to the betterment of his profession. I would leave this as my message for each of you.

The older I get the more I feel personally proud of the fact that I am a member of a profession. I enjoy the feeling of independence which attaches to the nature of our work. Dignity is lent one's profession through unselfish contributions given without hope or expectation of compensation in the work that the professional organization undertakes to carry on. I am sure that many of you have noticed or are aware of the many things which doctors do for the medical profession. It means that all of us not only have to support our organization by attendance and by some financial contribution but it means that we should *serve*. Service to one's profession may be accomplished in many ways. Your special knowledge of segments within the field of public accountancy and taxation may be given to others by addresses, by active leadership in accountancy education, by assistance to government officials. All of this means recognition of our true professional standing—no greater service is needed.

STATE BOARD OF ACCOUNTANCY OF KENTUCKY

J. O. Boswell, *President*; Albert Christen, *Member*; L. C. J. Yeager, *Sec'y-Treas.*

Certificates Granted to Nine

On August 21, 1950, the State Board of Accountancy announced that the following had been granted certificates as certified public accountants, as a result of the examination given on May 17, 18, and 19, 1950:

Charles B. Compton
Curtis J. French
James L. Isaacs
John E. Magel
John W. McIntyre
Frank S. Walker
Seymour Weiss
Robert H. Wetterer
Melvin R. Youngblood

At a meeting of the Board on June 26, 1950, the members refused to accept a permit fee tendered by an out-of-state public accountant whose claim that he was entitled to registration was based upon his alleged maintenance of an office in this state on June 19, 1946. The Board held that available evidence indicated that said public accountant did not in fact maintain a bona fide office in this state on that date.

Evidence that an audit of the books and records of a Kentucky city had been made by an unlicensed practitioner was reviewed, and a letter submitted by the person charged with such violation of the public accountancy act was considered. In view of the fact that he indicated regret that he had inadvertently engaged in the unlawful practice of public accounting, the Board directed that he be warned that a repeated violation must necessarily be considered grounds for action under KRS 325.400 and 325.990, and the case was filed away.

Recognition was given to the services of retiring Board Member John S. Petot, Sr., by adoption of the following resolution, Mr. Petot not voting:

"BE IT RESOLVED that the State Board of Accountancy of Kentucky has been fortunate in having the services of John S. Petot, Sr., as a member for a total period of nine years (1929-31 and 1944-50) and as President during the year just ended, and that the other members of the Board hereby express their pleasure at having had this opportunity to serve, with him, the interests of the citizens of Kentucky and of their chosen profession."

"Bookkeeping and Tax Service"

At a meeting of the Board on July 17, 1950, the Board noted that a number of certificate holders and registrants had failed to comply with the provisions of Rule 9 of the Official Code of Ethics, as amended, relating to the use of the terms "bookkeeping service," "tax service," "tax consultant," and the like by permit holders. The Secretary was directed to call the rule to the attention of those who have not yet complied with it. Rule 9, as amended, reads:

A public accountant shall not advertise his professional attainments. No public accountant shall advertise his practice on his office door or windows, letterheads, calling cards, or reports, by the use of words or phrases such as "Tax Service," "Tax Consultants," "Bookkeeping Service," or any similar words or phrases which may imply that other public accountants are not qualified to render like services.

A public accountant may authorize the listing in directories of his name, name of firm, address, telephone number, designation "Public Accountant" or "Certified Public Accountant," membership in national and state organizations of Public Accountants or Certified Public Accountants provided that (a) no listing shall be purchased directly or indirectly except that a reasonable fee may be paid to list name or name of firm, address, and telephone number under appropriate occupational caption in classified telephone or city directories and (b) no listing shall be displayed in special type or form, or inserted under the caption for a locality not embracing his address, or otherwise designed to produce an effect of advertising. The intent of this article is to limit the designation to the proper classification "Public Accountants" or "Certified Public Accountants" as the case may be. Such classifications as "Accountants," "Auditing Accountants," "Income Tax Accountants," "Income Tax Consultants," "Auditors," "Accountants and Auditors," and any such classifications other than "Public Accountants" and "Certified Public Accountants" serve only to confuse the public and hence are forbidden.

Roster of Members**July 31, 1950**

RESIDENT MEMBERS

William J. Acker	Robert L. Collins	Robert S. Hall
Louis E. Ackerson	Charles B. Compton	Paul F. Halloran
E. T. Alexander	Joseph M. Conder	W. Franklin Hammack
W. Frank Allen	Milton H. S. Cooper	Orville D. Harris
Edward F. Altes, Jr.	John E. Corder	Robert W. Harris
Arthur L. Ashcraft	William Cotton	Hudson Hatcher
David L. Authenrieth	Henry A. Cox	Robert D. Haun
Espy Bailey	M. B. Damron	Carl J. Heeb
Joseph M. Baillie	G. T. Davis	John C. Heffner
R. T. Baker	J. G. Denhardt, Jr.	E. W. Heller
George Barnes	Joseph H. Diersen	William A. Hifner, Jr.
L. C. Barnett	George A. Dodson	Holmes B. Hill
L. C. Beal	Frank J. Dooley	Herbert O. Hincks
Walter F. Behler	T. H. Dowell	James C. Holland
Stanley H. Bergmann	Norbert F. Elbert	George W. Howard, Jr.
Sylvain K. Bernstein	Charles W. Erskine	Oliver O. Howard
Philip L. Bird	C. R. Escott	Robert K. Hughes
Erle W. Bishop	Sam W. Eskew	J. A. Hunter
Larry I. Boone	Lyman H. Everly	Claude W. Hupp
James O. Boswell	Henry S. Fish	J. Wesley Huss
H. W. Bottorf, Jr.	Robert J. Fitzpatrick	Irvin W. Imhof
E. A. Bowden	Gordon Ford	Huet L. Johnson
Fred H. Bower	Helen H. Fortune	Honshell K. Johnston
U. G. Briscoe	Earle B. Fowler	Joseph P. Jones, Jr.
W. E. Bromley	Anthony Frerman	Kenneth S. Kane
A. Luke Brown	George S. Fritz	A. M. Kellerman
Herbert Lee Brown	Allen R. Galloway	John W. Kercher, Jr.
J. Bernard Brown	John S. Gant	G. Byron Kirby
John E. Brown	Ray E. Gayheart	John W. Koerner
John Robert Brown	Harold W. Glore	Emmett W. Kottke
G. Stuart Bruder	William J. Glover	Robert B. Lancaster
Joseph L. Buckler	Benjamin J. Goldfarb	Virgil P. Lary
Joseph R. Cannatti	Emil P. Graas	William O. Laslie
Harvey Cardwell	Austin G. Gresham	O. F. Layten
James C. Cecil, Jr.	Grover C. Greweling	Morris A. Lee
Albert Christen	W. Waller Grogan	William H. Leavell
Marvin L. Churney	Curtis E. Guffey	Irvin L. Levitan
Russell R. Circle	P. Willett Hagan	Lawrence Long
Claude I. Cohron	Gaylord C. Hall	Bernard J. Luker

Maurice Luker	James F. Queenan	Richard H. Thomas
John D. Lynch	Medard F. Rafalske	A. C. Thompson
A. J. Lynn	John A. Reisz	Charles L. Thompson
G. Lane McCroskey	Charles O. Rice	Edwin F. Thorburn
F. Edward MacDonald	Littleton C. Rice	W. Walter Thorp
Stanley P. McGee	Joseph R. Riedel	Duard N. Thurman
L. B. McIntire	Richard D. Riney	Robert J. Titzl
M. B. McMullen	Robert W. Romer	Bradley O. Turner
John C. McNeil	Louis T. Roth	Frank VanOverbeke, Jr.
John V. McReynolds	Henry T. Rowland	Clarence A. Veatch
Moses Master	A. Davis Rufer	Clough C. Venable
F. L. May	Sylvan Samuels	Richard E. Vollertsen
Howard M. May	Clement F. Schildt	W. G. VonRoenn
William J. Mayer	Lewis A. Schloemer	Max Waldman
James R. Meany	Edward S. Schroering	Wallace Wallen
John C. Meredith	Ralph H. Schuette	James C. Warren
John Sargent Miller	Thad J. Schuler	Marvin H. Warren
Robert Miller	W. D. Selby	Irvin L. Wasserman
V. G. Monroe	Hughes V. Sewell	Fay Watson
Paul V. Morris	William M. Shawler	C. H. Webb
Ellsworth W. Muller	W. Kenneth Simpson	W. J. Wells
Willis C. Nale	Estil W. Smith	Harry Welenken
A. J. Nauman	Edward G. Sommer	Joseph R. Wermeister
James N. Neel, Sr.	Louis S. Sorbo	William S. Wetterer
Lowell Nichols	Wallace B. Southall, Jr.	U. S. Whalin
M. Durbin Oldham	Joseph A. Steltenpohl	Charles M. Wheeler
Samuel C. Otis	Joseph G. Stocker	Fonda G. Williams
J. C. Paris	Kenneth W. Stringer	Harold B. Williams, Jr.
John S. Petot, Sr.	Marc Stuart, Jr.	Wilbur R. Williamson
John S. Petot, Jr.	E. Ellis Sutton	Everett C. Wood
Charles B. Pipes	E. C. Tatgenhorst	Horace D. Woodcock
I. Planck	Harrar W. Taylor	L. C. J. Yeager
Rex B. Potter	Guy R. Thomas	

NON-RESIDENT MEMBERS

Fred H. Allen	J. Bruce Hayden	L. L. Putnam
Charles J. Andersen	William W. Jackson	Paul F. Seiger
C. H. Burris	J. Garland Kimbrough	Allen K. Smythe
Robert K. Conrad	Kosti William Kohtala	Charles W. Swormstedt
E. Theodore Couch	Earl I. McArthur	B. L. Thurman, Jr.
William P. Crouch	W. Foster McKenney	Ben F. Wilson
Forrest Dalton	Roy G. Mosher	Edward C. Wirotzious
Estey W. Gouwens	Knox B. Phagan	Alvin E. Woolsey
M. Guy Hardin	Robert S. Prosser	Charlton C. Wright

RESOLUTION

Petitioning the Board of Trustees of the University of Louisville to establish a College of Commerce.

(Adopted June 26, 1950)

The excellent educational facilities now provided for Kentucky's future businessmen through colleges of commerce at Lexington and Bowling Green have long rendered substantial service to young Kentuckians, and business communities throughout the State have profited from the presence of their graduates. No provision has been made, however, for a college of commerce at Louisville, Kentucky's largest commercial and industrial center.

The University of Louisville is the Nation's oldest municipal university. Over a period of more than one hundred and fifty years this outstanding institution has moved steadily forward, serving the people of Louisville and Kentucky according to their needs. In the field of business administration, some educational facilities have been provided during the last two decades through the University's Division of Adult Education, which has utilized teachers from industry and the professions, in evening classes.

Due to increased demands, the University is offering courses leading to the Master of Business Administration in the evening school with the opening of the Fall session, 1950.

The University's courses in economics and commerce have thus been separately developed through day classes, in the Liberal Arts college, and night classes in the Division of Adult Education, as aforesaid. Although effective as a temporary provision for the needs of students of economics and commerce, such "stop-gap" treatment of this important field of training for Kentucky's future businessmen is inadequate to meet the needs of the area served by the University of Louisville.

On June 25, 1900, the New York State Society of Certified Public Accountants petitioned the Board of Trustees of New York University, urging that a school of business be established at that institution. This year, 1950, marks the fiftieth anniversary of the founding of the School of Commerce, Accounts and Finance of New York University. It seems most timely and most appropriate, therefore, that the Kentucky Society of Certified Public Accountants, at this Annual Meeting of Members here in Louisville, Kentucky, on June 26, 1950, should adopt the following resolution:

BE IT RESOLVED, That the members of the Board of Trustees of the University of Louisville are hereby respectfully petitioned to establish within the University a College of Commerce with appropriate entrance requirements

AROUND THE STATE

- L. I. BOONE, certified public accountant on June 30, 1950, retired as Comptroller of C. T. Dearing Printing Company, Louisville, after forty-two years of activity in Louisville financial circles.
- RALPH H. SCHUETTE and HARRAN W. TAYLOR have announced the retirement of CURTIS E. GUFFEY from the firm of Schuette & Taylor, certified public accountants. Mr. Guffey has become controller of Claussner Hosiery Company, Paducah.
- WILBUR R. WILLIAMSON, certified public accountant (and newly elected Society Secretary), addressed the Southern States Accountants Conference at Edgewater Park, Mississippi, on "Deficiencies in Municipal Auditing and Reporting," on June 7, 1950.
- W. KENNETH SIMPSON, certified public accountant (and newly-elected Society President), presided over the session at which Williamson spoke.
- GARRETT M. CASTLE, public accountant, has been appointed a member of the three-man Harlan County Budget Commission.
- JAMES T. VALENTINE, public accountant, has agreed to an injunction which forbids him to practice law. The agreement settled a suit against Valentine by the Louisville Bar Association.
- CHARLES M. WHEELER, certified public accountant, placed tenth in a field of 30 drivers in a racing event sponsored by the Detroit Region, Sports Car Club of America. Known as the "Michigan Press-on-Regardless," the race took place along back roads in Southern Michigan.
- J. B. BROWN, certified public accountant, addressed the Optimist Club of New Albany at a dinner meeting on June 12, 1950, on the subject of "Federal Income Taxes."
- R. T. BAKER, certified public accountant, has been admitted to partnership in the firm of Chas. C. Harris & Co., public accountants, Louisville.

and courses comparable to similar accredited schools in our own and other states, including provision for a bachelor's degree in accounting, and

BE IT FURTHER RESOLVED, That the College of Commerce thus established should include in its curriculum, insofar as possible, courses in economics, accounting, banking, transportation, marketing, life insurance, and the like, which are now provided through Division of Adult Education, and

(Continued on page 12)

New Look of "Lower of Cost or Market"

By LOUIS S. SORBO

Prior to the issuance by the American Institute of Accountants of the Accounting Research Bulletin No. 29, under date of July, 1947, the meaning of the word "market" as used in the term "lower of cost or market" was unequivocally understood to represent the replacement or reproduction cost at the inventory date of the commodity in the inventory. This meaning was well established and generally accepted for financial reporting. It was accepted by the Bureau of Internal Revenue for the valuation of inventories for the purpose of determining taxable income (Regulation 29.22 (c)-4). Accounting Research Bulletin No. 29 formally initiated a new concept of the meaning of "market." Such new concept

becomes apparent upon the critical examination of Statements 5 and 6 contained in the Bulletin. In view of the greater use of the lower "market" price in valuing inventories during periods of falling commodity prices, a re-examination of the meaning of the term "market" seems warranted.

Statement 5 asserts that, "A departure from the cost basis of pricing the inventory is required when the usefulness of the goods is no longer as great as its cost. Where there is evidence that the utility of goods . . . will be less than cost . . . the difference shall be recognized as a loss of the current period. This is generally accomplished by stating such goods at a lower level commonly designated as 'market.'"

It is apparent from the above statement that pricing should be as cost unless there is "evidence" of a diminution in the "usefulness" or "utility" of the goods. What constitutes evidence of diminution of utility or usefulness is to be determined by the application of the rules contained in Statement 6, and, as will later be seen, a decrease in the replacement cost and/or a decrease in the realizable value of the goods in the inventory will not necessarily result in the diminution of usefulness or utility of the goods. A loss of utility will have been sustained, on the basis of assertions in Statement 5, only when a writedown from cost to the lower "market" is required after the application of the rules contained in Statement 6.

Statement 6 asserts that the term "market" as used in Statement 5 means "current replacement cost (by purchase or reproduction . . .) except that:

"(1) Market should not exceed the net realizable value (i.e., estimated selling price in the ordinary course of business less reasonable predictable costs of completion and disposal and

"(2) Market should not be less than net realizable value reduced by an allowance for an approximately normal profit margin."

In order to facilitate a better interpretation of the rules contained in Statement 6, determine the "market" thereunder, and to ascertain whether there has been a loss of utility so that a writedown from cost to the lower "market" price is required, a schedule is herewith submitted which shows the pricing of an inventory item under different assumptions. The assumptions are based upon a hypothetical commodity on which a company has the following experience:

Selling price		\$100
Cost: Purchase cost	\$60	
Completing cost	12	72
		<hr/>
Gross profit		28
Selling expenses:		
Direct	5	
Indirect (prorated)	3	8
		<hr/>
Normal profit margin.....		20
Administrative expenses (prorated)..		10
		<hr/>
Net profit		\$ 10

It is assumed in the examples presented that completing and disposal (selling expenses) are to remain the same.

The amounts in columns (1) and (2) of the schedule represent the expected selling prices and the present replacement costs respectively. Such amounts are the assumptions under which the pricing is to be determined. The net realizable values shown by Column (3) are determined by deducting completing and disposal costs—Column (6)—from expected selling prices—Column (1). The net realizable value less normal profit margin amounts shown in Column (4) are determined by deducting the normal profit margin (twenty per cent of the expected selling prices) from the net realizable values—Column (3).

The amounts in Column (5) are the lower of cost or "market" under the different assumptions as defined by statement 6, and are the amounts at which the inventory is

Schedule Showing Pricing of Inventories Under the Lower of Cost or Market Rule of Statement 6 of A.I.A. Bulletin No. 29

Assumption	Expected Selling Price	Replacement Cost	Net Realizable Value	N.R.V. Less N.P.M.	Inventory at Lower-Market or Cost—\$60	Expected Recovery	Profit Margin	Normal Profit Margin 20%
Decrease in cost	\$100	\$50 T	\$80	\$60 M	\$60	\$20	\$20	\$20
Decrease in selling price								
1								
2	95	60 T M	75	56	60	20	15	19
3	90	60 T M	70	52	60	20	10	18
4	85	60 T M	65	48	60	20	5	17
5	80	60 T M	60	44	60	20	...	16
6	75	60	55 T M	40	55	20	...	15
7	70	60	50 T M	36	50	20
Decrease in cost and in selling price								
8	95	50 T	75	56 M	56	20	19	19
9	90	50 T	70	52 M	52	20	18	18
10	85	50 T M	65	48	50	20	15	17
11	80	50 T M	60	44	50	20	10	16
12	75	50 T M	55	40	50	20	5	15
13	70	50 T M	50	36	50	20
14	65	50	45 T M	32	45	20
15	95	40 T	75	56 M	56	20	19	19
16	90	40 T	70	52 M	52	20	18	18
17	85	40 T	65	48 M	48	20	17	17
18	80	40 T	60	44 M	44	20	16	16
19	75	40 T M	55	40	40	20	15	15
20	70	40 T M	50	36	40	20	10	14
21	65	40 T M	45	32	40	20	5	13
22	60	40 T M	40	28	40	20
23	55	40	35 T M	24	35	20

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to be priced under the respective assumptions. They are determined upon the application of the criteria set forth by rules 1 and 2 of the statement. In applying Rule 1, Column (2) is compared to Column (3) and the lower amount becomes the tentative market (T). If the amount in Column (3) is lower, that amount becomes the market (M) which is to be compared to cost (\$60) in order to ascertain the lower of cost or "market." If the amount in Column (2) is lower, then that amount becomes the tentative market (T). Rule 2 of the Statement will then have to be applied and the higher of (T) or the amount in Column (4) becomes the market (M) which will have to be compared to cost.

On the basis of the hypotheses presented in the accompanying schedule the following generalizations are made:

1. A writedown is not permitted merely by reason of a decrease in replacement costs. Assumption 1, bears this out. Moreover, a writedown of the inventory without any decrease in the expected selling price would result in a greater than normal profit margin for the succeeding period.

2. When it is expected that there will be a decrease in selling price but replacement costs will remain the same, writedowns are not permitted except to assure full recovery of expected completing and disposal cost (See assumptions 2 through 5, and 6 and 7).

3. A writedown will always be permitted so that there will be full recovery of expected completing and disposal costs (Assumptions 6, 7, 13, 14, 22, and 23).

4. When there are decreases in both replacement costs and expected selling prices, writedowns are permitted to the extent that (a) a normal profit margin will be realized when the N.R.V. less N.P.M. is equal to or in excess of replacement costs (Assumptions 8, 9, 15, 16, 17, 18, and 19), and (b) there will be a partial recovery of the profit margin when replacement costs are in excess of the N.R.V. less N.P.M. but not in excess of the net realizable values (Assumptions 10, 11, 12, 20, and 21).

Estate Planning

The CPA's place in estate planning has been highlighted recently by the formation of Estate Planning Councils in Miami, Florida, and Fort Wayne, Indiana. Members include lawyers, trust officers, life underwriters, and certified public accountants.

The formation of such an Estate Planning Council for Louisville has been proposed. Interested CPAs are invited to communicate with Sam W. Eskew, Kentucky Home Life Building, Louisville 2, Kentucky, for further information.

A.I.A.-Membership Advantages Cited

Gordon Ford, serving as Kentucky representative on the membership committee of the American Institute of Accountants, recently wrote to every Kentucky certificate holder not already an Institute member. He pointed out that the Institute is contributing daily to the welfare and advancement of the accounting profession, and that the individual receives substantial tangible returns from membership in the Institute. Excerpts from Ford's letter follow:

"The accounting profession in this country did not come about by matter of chance or mere circumstance. Over a period of sixty years, a relatively small body of practitioners has built the profession through constant devotion to high professional standards. Today your national professional organization is 16,000 strong. The voice of the Institute is heard in the press, through the Committees of Congress and before state legislatures, in support of legislation that is in the best interests of both the profession and the public. The Institute's public relations program has recently been enlarged. Through this program, legislators and consumers of public accountants' services will come to know better what a CPA is and what services he is especially qualified to render. Evidence of the prestige and value of the CPA certificate is found in the fact that many are striving to obtain the certificate."

"Some groups seek to limit the freedom now enjoyed by CPAs to practice before governmental agencies and in the field of taxation. Only a strong national organization working in close co-operation with the state societies of certified public accountants throughout the nation can effectively combat these attacks and move forward with a long-range program for the profession. Full support of this program by every qualified CPA is needed."

"To encourage those who receive the CPA certificates to become members of the American Institute of Accountants early in their professional careers, the annual dues for the first four years during which a member has held his CPA certificate are set at the modest amount of \$10.00, annual dues prorated from the date of admission to the end of the fiscal year. To encourage CPAs to become members of their state societies, the application fee of \$10.00 is waived in the case of all applicants who are state society members."

"All members of the Institute receive without additional cost *The Journal of Accountancy*, *The Certified Public Accountant*, *The Yearbook*, Accounting Research and Auditing Procedure bulletins and the proceedings of the annual meeting. No professional accountant can afford to be without these tools."

"Qualified Public Accountant" Defined

Board Secretary L. C. J. Yeager has received an opinion from the office of Attorney General A. E. Funk, relating to the statutory requirement that, in cities of the second, third, and fourth class, an annual audit of the accounts of all city officers shall be made by a "qualified public accountant." The opinion, which was dated July 18, 1950, and signed by Squire N. Williams, Jr., Assistant Attorney General, reads as follows:

We acknowledge receipt of your letter of July 17, 1950, in which you refer to an opinion to Mr. D. C. Cavanah, Madisonville, Kentucky, dated February 8, 1949. Therein we advised that KRS 92.405 provides that in cities of second, third, and fourth class, an annual audit of the accounts of all city officers shall be made at the termination of each fiscal year by qualified public accountants who have no personal interest in the financial affairs of the employees. Therein we pointed out that the law does not require the employment of a certified public accountant.

"In your letter you pointed out that chapter 325 of KRS restricts the use of the title certified public accountant or public accountant to persons holding permits issued by the Board of Accountancy. And in connection therewith, you asked the following two questions:

"(1) In order for a city of the second, third or fourth class to comply with the provisions of KRS 92.405 requiring an annual audit, would it not be necessary for the city to obtain a financial statement, or an opinion thereon, signed by a qualified public accountant?"

There is no doubt but that the audit required by KRS 92.405 must be made by a qualified public accountant. The plain language of the statute is subject to no other interpretation.

"(2) In such event, could any person other than the holder of a permit to practice public accounting issued by

this Board be deemed a qualified public accountant?"

Since the Legislature has seen fit to identify and define "certified public accountant" and "public accountant," it is only logical to assume that in enacting KRS 92.405 it intended that the definitions placed upon accountants should apply.

Chapter 325 of KRS sets up the qualifications for public accountant, and it is our opinion that unless a person meets those qualifications, he would not be eligible to carry on the practice of such public accountant. It is interesting to note that under KRS 325.290, a certified public accountant may be known as such or he also may be known as a public accountant.

It is our opinion therefore, that when the Legislature required the audits mentioned in KRS 92.405 to be made by qualified public accountant, it did so with the knowledge of the requirements as set up in chapter 325 of KRS, and with the intention that any person properly qualified under such chapter as a public accountant or a certified public accountant should be the only person authorized to make the audit.

RESOLUTION

(Continued from page 8)

BE IT FURTHER RESOLVED, That the President of this Society be and he hereby is directed to send a copy of this resolution to the President of the University of Louisville, and to offer the co-operation of this Society to the President and Board of Trustees in furthering the establishment of a College of Commerce within the University of Louisville, and

BE IT FURTHER RESOLVED, That the President of this Society be and he hereby is directed to send copies of this resolution to the Presidents of the Kentucky and Louisville Chambers of Commerce and other interested business and civic organizations, inviting their support for this movement.