

THE *Kentucky* CPA ACCOUNTANT

BULLETIN OF THE KENTUCKY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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No. 2

SECOND KENTUCKY INSTITUTE ON ACCOUNTING

On Tuesday and Wednesday, May 15 and 16, 1951, the Society and the University of Kentucky again joined in presenting the Kentucky Institute on Accounting, a project in professional education which was undertaken for the first time at Lexington a year ago. The group in charge of planning and arrangements was headed by Robert D. Haun, chairman, Institute on Accounting Committee, Kentucky Society of Certified Public Accountants, College of Commerce, University of Kentucky, Lexington. More than 200 attended again this year to benefit from the technical sessions and fellowship gatherings which were provided.

Notice: Bylaws Change Voted

The Rules of Professional Conduct, which appear as Article XI of the Society's bylaws, have been reviewed by a special committee consisting of Gordon Ford, chairman of the bylaws committee, William Cotton, chairman of the professional ethics committee, L. C. J. Yeager, secretary of the State Board of Accountancy, and Sam W. Eskew, chairman of AIA's committee on professional ethics. As a result, the directors of the Society have approved several proposed revisions of the Rules, all of which are designed to bring about maximum uniformity among the sets of ethical rules to which CPAs are subject in Kentucky, namely, (1) the Rules of Professional Conduct of the American Institute of Accountants, (2) the Official Code of Ethics of the State Board of Accountancy, and (3) the Society's Rules of Professional Conduct.

In accordance with prescribed procedure for amending the bylaws, the proposed revisions are published herein so that all members may know that these amendments will be voted upon at the annual meeting, which is expected to be held at the Audubon Country Club in Louisville on Monday, June 25, 1951. For the full text of the special committee's report, see pages 6 and 7 of this issue of the *Kentucky Accountant*.

If the proposed amendments are approved by the members at the annual meeting, the complete bylaws, as revised, will be published in a forthcoming issue of this bulletin.

Accounting Education

On April 19, 1951, ninety persons attended the Society's regular meeting of members to hear three eminently qualified speakers: J. R. Meany, CPA and head of the Accounting Department at Bowling Green College of Commerce; William Thompson, of the University of Louisville's Department of Economics and Commerce; and Robert D. Haun, CPA, of the University of Kentucky, College of Commerce.

Meany outlined the accounting curriculum of his institution, pointing out that forty hours in accounting subjects were available to those students who wanted to be thoroughly grounded in their chosen field. Thompson reviewed U. of L.'s courses, and stated that they hoped to begin granting a master's degree in accounting in the near future. He also described the internship program recently initiated on an experimental basis by the Society in co-operation with U. of L., and stated the experiment had been a success from U. of L.'s point of view.

Haun, who was accompanied to the meeting by Wendell E. Beals and Russell S. Grady of the University of Kentucky accounting staff, explained that accounting courses in that university are a part of the curriculum of the College of Commerce, and not separately designated departmental courses.

The program was arranged, at the request of J. B. Brown, chairman of the meetings committee, by Robert J. Fitzpatrick, education committee chairman, who introduced the speakers.

THE KENTUCKY ACCOUNTANT

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The KENTUCKY SOCIETY of
CERTIFIED PUBLIC ACCOUNTANTS

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Articles by members are solicited. Deadline for submission: 15th day of first month covered by issue for which submitted.

CPAs' Services Exempt From Price Control Regulations

The services rendered by certified public accountants are considered professional services and are exempt from federal price regulations, according to Harold Leventhal, Acting Chief Counsel of the Office of Price Stabilization.

Mr. Leventhal advised the American Institute of this exemption in response to its inquiry regarding the OPS's position on the status of certified public accountants under price control.

Because of their professional standing, he replied, CPAs are not subject to the regulations under Section 402 (c) (ii) of the Defense Production Act of 1950 and Section 14 (b) of the General Ceiling Price Regulation.—*AIA Newsletter*

The President's Message . . .

The Society's fiscal year ends on May 31. Although the entertainment committee not yet completed arrangements for our annual outing, we hope to be able to announce the date and place very soon. Watch for your announcement and be sure to make your reservations early.

Elsewhere in the issue you will find formal notice of a proposed revision of the Society's rules of professional conduct. The changes proposed were drafted by a special committee composed of William Cotton, ethics committee chairman; Gordon Ford, bylaws committee chairman; Sam W. Eskew, chairman of AIS's ethics committee; and L. C. Yeager, secretary of the State Board of Accountancy. The necessary amendments are set forth in the committee's report, which appears on pages 6 and 7 of this issue. The report has been approved by the Board of Directors and will be submitted to the membership by the bylaws committee at the annual meeting.

Several of the addresses which will be given at our Institute on Accounting in Lexington on May 15 and 16 will be reprinted in *Taxes—The Tax Magazine*. Complimentary copies of the issue in which those addresses appear will be sent to all who attend the institute.

Sam W. Eskew, as your elected representative, and I as your president have just attended the spring meeting of Council of the American Institute of Accountants, held at Colorado Springs, Colorado, May 7-10, 1951. Although you gave us no specific instructions, we believe that we expressed your viewpoint when we advocated the extension of regulatory legislation, voted for approval of the statement of principles on income tax practice (previously approved by the American Bar Association), and took other actions called for by the agenda. You will receive a more complete report of this important session at our annual meeting.

Your committee on nominations for directors of the Society, with Waller Grogan as chairman, will soon meet to select a slate of candidates to be presented at the annual meeting. If you have any suggestions, please submit them to a member of the committee at once. Directors whose terms expire this year are: Charles W. Erskine, J. Wesley Huss, Jess C. Paris, W. Kenneth Simpson and Kenneth W. Stringer.

Remember that the Southern States Accountants Conference will be held at Tulsa, Oklahoma, June 3-6, 1951. If you haven't made reservations for yourself and your wife, write to Roy F. Godfrey, president, 1120 First National Building, Tulsa, Oklahoma, for further information.

W.K.S.

CPA Examination Problems

In the winter edition of the *South Dakota Certified Public Accountant*, Henry E. Olson, CPA, presented an extremely interesting analysis of the problems given in CPA examinations from 1917 through 1950. Using a series of six major classifications, he showed the relative importance of each, in order of total point values assigned, during three historical periods: 1917-1939, 1940-1944, and 1945-1950. Here are several interesting conclusions drawn from Olson's article:

"Consolidated statements" have declined in importance from second place to fifth place in the six classifications.

"Cost" problems have advanced from fifth to third place.

Problems involving "preparation of worksheets and financial statements" have advanced from sixth place to second place.

"Municipal accounting" was stressed in the forties, remaining in first place throughout the decade, and accounting for 17.1 per cent of the total point values in the six years ending December 31, 1950.

In the six-year period inclusive of 1945-1950, "Federal income taxes" accounted for 13 per cent of total point values.

The World Calendar

Since the American Institute of Accountants in 1944 endorsed The World Calendar as a very desirable improvement over the Gregorian calendar now in use, many certified public accountants have become acquainted with this proposal to stabilize our present irregular method of recording day-to-day events by adoption of a calendar similar in many respects to the present one, but better.

A fountain of information about the World Calendar is the headquarters of the non-profit World Calendar Association, International Building, 630 Fifth Avenue, New York 20, New York. The Association publishes the *Journal of Calendar Reform*; the following quotation is taken from the fourth quarter, 1950, issue of that publication:

"We discussed the subject of calendar reform at a partners' meeting last week and decided we should encourage our people to learn about its techniques and advantages. Members of our staffs in various cities meet a great many business and professional people and can thus assist in educating the public.—I. B. McGladrey, McGladrey, Hansen, Dunn and Company, Accountants, Cedar Rapids, Iowa."

Grogan At Tax Meeting

In a letter received by the editor too late for inclusion in the last issue of the *Kentucky Accountant*, Waller Grogan, a member of the AIA Federal tax committee, summarized the

(Continued on page 8)

AROUND THE STATE

• LOUIS E. ACKERSON and ROY MOSHER are now associated as partners in the firm of ACKERSON & MOSHER, Certified Public Accountants, Lincoln Bank Building, Louisville.

• JAMES R. MEANY and CARL N. KELLEY have formed a partnership under the name of JAMES R. MEANY & ASSOCIATES, Certified Public Accountants, with offices in the Grady Building, Bowling Green.

• BELL and WALKER, Certified Public Accountants (JOHN L. BELL, FRANK WALKER) have moved to new offices at 1002 Hoffman Building, Louisville.

• WELLENKEN & MASTER, Certified Public Accountants (HARRY WELLENKEN, MOSES MASTER, CLARENCE WEBB), have moved to suite 1901-05 Kentucky Home Life Building, Louisville.

• JAMES R. MEANY & ASSOCIATES have audited the city of Scottsville, according to the *News* of that city.

• BROWN & IMHOF, Certified Public Accountants, recently completed a report on the city of Leitchfield, the *Gazette* reported on March 15.

• The Russellville *News-Democrat* informs us of an audit of that city, made by Ezra Jones, CPA (Tennessee) of the firm of Osburn & Page, Nashville, Tennessee.

• J. C. PARIS, CPA, has completed the 1950 audit report of the city of Lexington, according to the *Herald*.

• CLINTON F. GARDINER, CPA, is examining the records of the Green Line, which operates busses serving the city of Covington, according to the *Post* of that city. Gardiner's findings were to be submitted to the State Motor Transportation Division by the Northern Kentucky Utilities District, composed of . . . "representatives of northern Kentucky cities in a unified fight on utility rates."

• The Corbin *Tribune* noted that JOHN W. SWEENEY has received his CPA certificate, and the Henderson *Gleaner* and *Journal* commented upon the election of EVERETT C. WOOD to membership in the American Institute of Accountants.

• WALDMAN & LEVITAN, Certified Public Accountants (MAX WALDMAN, IRVIN L. LEVITAN, RAY E. GAYHEART, CHARLES S. REICH, MELVIN R. YOUNGBLOOD) are doing business at the location formerly occupied by Waldman, Levitan & Wheeler, in the Marion E. Taylor Building, Louisville. CHARLES M. WHEELER, CPA, has opened his office in the Heyburn Building, Louisville.

STATE BOARD OF ACCOUNTANCY OF KENTUCKY

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

May CPA Examination

Fifty-five candidates are expected to sit for the CPA examination on May 15, 16, and 17, 1951, ten of them for the first time.

The examination is being held again at the Henry Clay Hotel, Louisville. The next one will be given on November 7, 8, and 9, 1951. Deadline for applications is *thirty days before the examination.*

Enforcement Activities

The "classified" section (yellow pages) of the telephone directory in each and every Kentucky city served by such a directory has been subjected to review by the Board, and the secretary has corresponded with every licensee whose listing was not in accord with Board rules of ethics. All licensees have notified the Board that they intend to see that their listings are properly carried in future issues of the respective directories.

In two cases involving the actions of unlicensed persons who held themselves out to the public as "accountants" during the months of March and April, 1951, the Board took prompt action which resulted in the cessation of unlawful practice by the unlicensed persons.

Board members are pleased to note that the Kentucky Society of Certified Public Accountants is considering a revision of its rules of professional conduct which will bring them into substantial conformity with existing rules of the Board, as well as with the rules of ethics of the American Institute of Accountants.

Accountancy Legislation

In a recent issue we referred on this page to the progress of regulatory legislation in other states. Five regulatory bills were introduced, in Connecticut, Massachusetts, New York, Oklahoma, and Oregon. Each was sponsored by its state CPA Society.

As we go to press, hearings are being held on the Connecticut bill, the Massachusetts bill has been referred to the next annual session, New York's bill has been defeated (by a very close margin), and Oregon's bill has been passed by both houses.

A permissive bill, sponsored by the Kansas Society of CPAs, has been enacted into law and will become effective July 1, 1951. The bill repeals present permissive law; creates Board of Accountancy composed of five

CPAs and an advisory council of not more than five members, composed of the dean or faculty members of schools of business or business departments of Kansas institutions of higher learning; includes education and experience requirements in the law; and provides for issuance of annual permits to CPAs. House committee amendment requires members of advisory council to be Kansas residents and specifies that annual permit fee may not exceed prescribed amount (\$15).

The Governor of New Mexico vetoed a bill, passed by both houses, which would have permitted a college graduate with a major in accounting to take the CPA (or RPA) examination without regard to the candidate's experience in public accounting. The successful candidate's certificate would have been withheld pending completion of the experience requirement. A similar Idaho bill was, we think unfortunately, enacted into law.

A number of bills were introduced in the various state legislatures which sought to provide recognition of public accountants. Unfortunately, none of these bills were sponsored by the respective state CPA societies, and all had serious defects which caused the societies to oppose them. For example, the Ohio legislature last month held hearings on a bill which would repeal the existing CPA law, create a State Board of Accountancy composed of five CPAs or PAs, permit any person to apply for PA registration within one year after its effective date and provide for issuance of CPA certificates *by waiver*. The italicized items clearly demonstrate why the CPA society had to oppose the bill. It is to be hoped that in the future state CPA societies will take a more active part in framing their own regulatory legislation. Kentucky's experience has shown that adequate and proper legislation, beneficial to CPAs, public accountants, and to the public, can be provided if the state CPA society assumes leadership in the drafting of a regulatory bill.

Yeager Reappointment Favored

At a meeting of directors of the Kentucky Society of Certified Public Accountants a resolution, recommending to Governor Lawrence Wetherby that he reappoint L. C. J. Yeager to the State Board of Accountancy when Yeager's three-year term expires in June, was unanimously adopted.

• ADVICE AND SUGGESTIONS FROM OUR READERS •

What Is "tax accounting"?

To the Editor of the Kentucky Accountant:

While reading Earle Fowler's very interesting article in the previous issue of the *Kentucky Accountant* entitled "Deduction of 'Supplies' Cost," the thought occurred to us that "things are getting worse instead of better." The gap between accounting principles and the interpretation of accounting principles in the Internal Revenue Code is widening instead of closing.

The gist of Mr. Fowler's article was that if the taxpayer has "paid or incurred" any expense for supplies and materials, it appears (according to several recent court decisions) that the purchase price perhaps can and should be deducted in the year "paid or incurred" *whether the item has been used or not* (italics ours).

Without going into the merits of the particular cases involved, it should be obvious to any public accountant that once again the Internal Revenue Code, as here interpreted by the Maryland District Court and the Tax Court, does not follow generally accepted accounting principles. The principle of matching costs with revenue and of allocating expense and revenue to proper years is, we believe, a very basic one. Yet the courts many times each year, because of the way in which the Internal Revenue Code is worded or written, violate this and other important generally accepted accounting principles—when determining what they so loosely call "income." Now, we're not blaming the courts. After all, their job is to interpret the law the way it is written—according to the way the courts read it. However, it does seem that the Federal "income tax" could be better styled as "a tax based *generally* upon income, but with *many exceptions* made in determining income."

The handling of such items as rent paid in advance and gain or loss on trade-ins, are suggestive of the exceptions. In the latter case, we would be willing to believe that most public accountants have conformed to the income tax law method of handling trade-ins when it comes to preparing audit reports. And thus we come to the point.

We believe it is important for all public accountants to remind themselves, every now and then, of the fact that generally accepted accounting principles are not to be changed or modified by court decisions—even Supreme Court decisions!—and that audited statements as prepared by independent public accountants are not meant to reflect *taxable* income and deductions. Any accountant who believes that because he is entitled to take a deduction on a tax return, that he should also present

the item as an expense in an audited income statement, should think the matter through again.

In all such cases where tax advantage violates accounting principles—whether it be deductible item or deferrable item—we should attempt to educate the client to the difference between taxable income and income as determined by generally accepted accounting principles. Only by so doing can we remain *independent* public accountants. Otherwise, we become accountants determining income by court fiat, and then where is our vaunted virtue of independence? Income in the First District would probably be different from income in the Second District. Our reports would have to state "according to generally accepted principles of determining income in the Second District on March 4, 1951!"

Independent public accountants are primarily that, and not tax consultants to whom the preparation of an income statement or balance-sheet is the making of a schedule to accompany a tax return. In our laudable effort to find tax deductions or advantages for our clients, and so to keep them satisfied, let us not forget our primary responsibility as public accountants to present financial statements which can be relied on as following generally accepted accounting principles.

L. C. J. YEAGER
Louisville

(Editor's Note: This interesting question is further discussed in a reply by Mr. Fowler, which begins on page 7 of this issue.)

Municipal Audit Legislation

The following have been enacted into law: A MARYLAND bill requires Town of Easton books to be audited annually by a CPA appointed by Mayor and Council; three NORTH CAROLINA bills—one requires annual independent audits of all accounts of Town of Black Mountain by qualified public accountants, the second requires Board of County Commissioners to have books of Clay County audited annually by a CPA, and the third provides that report issued by a CPA as a result of annual audit of accounts of any Superior Court Clerk may be substituted for annual report required of the court clerk. A VERMONT bill, which would have required auditor of accounts to audit the accounts of every municipality at least once every four years, authorized the employment of necessary public accountants, and permitted recognition of annual municipal audits by CPAs, was killed in the House.

—AIA Newsletter

Proposed Revisions to Rules of Professional Conduct

Mr. W. Kenneth Simpson, President
Kentucky Society of
Certified Public Accountants
Louisville, Kentucky

Dear Sir:

We, the undersigned, members of a committee appointed by you under date of November 28, 1950, hereby recommend the following amendments to the Rules of Professional Conduct of the Kentucky Society of Certified Public Accountants:

Section 4. It is recommended that the word "shall" as used in this section be deleted, and the word "may" be inserted in lieu thereof.

If this amendment is approved, said Section 4 will read as follows:

"In expressing an opinion on representations in financial statements which he has examined, a member may be held guilty of gross negligence or misconduct in the practice of public accountancy if:"

Section 4, Subsection (c). It is recommended that the word "grossly" be deleted, and the word "materially" be inserted in lieu thereof.

If this amendment is approved, said Subsection (c) of Section 4 will read as follows:

"He is materially negligent in the conduct of his examination or in making his report thereon; or"

Section 5. It is recommended that Section 5 be amended by deleting the words "or by", deleting the period at the end of the section and adding thereto a comma and the following: "a member of the American Institute of Accountants, a member of a similar association in a foreign country, a certified public accountant of a state or territory of the United States or the District of Columbia, or a public accountant duly licensed by the official accountancy board or commission of a state or territory of the United States or the District of Columbia." So that, when said section is amended, it shall read as follows:

"A member shall not sign a report, nor permit a record to be signed in his name, purporting to express his opinion as to the result of examination of financial statements, or verify any other form of accountancy work, unless such statements or work have been examined by him, a member or employee of his firm, a member of the American Institute of Accountants, a member of a similar association in a foreign country, a certified public accountant of a member of his immediate family owns or

the District of Columbia, or a public accountant duly licensed by the official accountancy board or commission of a state or territory of the United States or the District of Columbia."

Section 9. It is recommended that Section 9 be amended by extending the first sentence and by adding a second sentence, so that the first two sentences of Section 9 will read:

"A member shall not advertise his professional attainments or services. No member 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 members are not qualified to render like service." [Revised April 19, 1951]

It is recommended that Section 9 be further amended by adding to Subsection (b) the following:

"The intent of this section is to limit the designation to the proper classification of 'Certified Public Accountants.' Such classifications as 'Accountants,' 'Auditing Accountants,' 'Income Tax Accountants,' 'Income Tax Consultants,' 'Auditors,' 'Accountants and Auditors,' or others than 'Certified Public Accountants' serve only to confuse the public and hence are forbidden."

Section 11. It is recommended that Section 11 be amended by deleting the word "any," which appears as the fourteenth word in said section, and substituting therefor the word "an."

Section 12. It is recommended that Section 12 be amended by deleting the entire section and inserting in lieu thereof the following:

"Section 12. A member shall not express his opinion on financial statements of any enterprise financed in whole or in part by public distribution of securities, if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or is committed to acquire a similarly substantial interest in the enterprise. A member shall not express his opinion on financial statements which are used as a basis of credit if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or

is committed to acquire a similarly substantial interest in the enterprise, unless in his report he discloses such interest."

Section 13. It is recommended that Section 13 be amended by deleting the entire section and substituting therefor the following:

"Section 13. A member shall not submit a competitive bid for professional engagements in Kentucky. A member shall not in any other state, territory, or the District of Columbia, submit a bid for professional services, if the submission of such bid would constitute a violation of any rule of the recognized society of certified public accountants or the official board of accountancy in such other state, territory, or district. A competitive bid for professional engagements is defined as: An offer made to a person or organization not a regular client to perform a specified service for a specified sum, with the knowledge that a similar offer is or offers are being solicited of another public accountant or other public accountants. The fact that a member is solicited to make an offer to perform a service for a stipulated fee by a person or organization which is not already a client of the member so solicited is indicative that similar offers are being solicited, and it shall be incumbent upon the member to reasonably assure himself to the contrary by direct question to the solicitor before making an offer to perform such service for a stipulated fee."

Section 14. It is recommended that Section 14 be amended by deleting the entire section and substituting therefor the following:

"Section 14. A member engaged in any occupation in which he renders service of a type commonly rendered by a public accountant must observe the rules of professional conduct promulgated by this society in the conduct of that occupation."

The members of the committee will be glad to discuss with you any of the proposed changes.

Respectfully submitted,

S. W. ESKEW
GORDON FORD
L. C. J. YEAGER
WM. COTTON

Approved by the Board of Directors, after addition of second sentence of Rule 9 as set forth herein, on April 19, 1951, to be submitted to the membership at the Annual Meeting in June, 1951.

EARLE B. FOWLER
Executive Secretary

Approved:
W. K. SIMPSON
President

More Accounting and Taxes

Elsewhere in this issue Mr. L. C. J. Yeager, a member and past president of our Society and at present a member and secretary of the State Board of Accountancy, cautions members of the accounting profession to keep in mind their "... primary responsibility as public accountants to present financial statements which can be relied on as following generally accepted accounting principles."

Mr. Yeager's reminder is timely and appropriate. Whether we approve of the situation or not, the fact is that "taxable income" and "income determined in accordance with generally accepted accounting principles" are not always the same. We interpret Mr. Yeager's position to be (1) that income per audit report must be determined by application of the aforesaid principles and (2) that income subject to Federal income taxes must be determined primarily by application of the Federal income tax laws. With this position we are heartily in accord.

Whenever such a distinction is made, however, another interesting issue is raised, about which there has been much discussion in recent years. The question has been asked: Since income subject to Federal income taxes must be determined by application of the Federal income tax laws, should a practitioner of public accounting undertake such determination?

It is the personal opinion of the writer (but not necessarily that of the Society, its officers or directors, or of the publications committee) that public accountants and certified public accountants are generally better qualified to prepare income tax returns than the average non-lawyer, and that accountants generally work with the "raw data" which must be put into statement form before any lawyer undertakes to advise the client as to his income tax liability. The accountant therefore makes the initial determination of what Mr. Yeager calls "... a tax based *generally* upon income, but with *many exceptions* made in determining income."

The accountant's initial determination is often also the final determination of the taxpayer-client's liability for Federal income taxes—that is, for the purpose of filing the income tax return. It is therefore the accountant's duty to familiarize himself with the Federal income tax law to such an extent that he can determine whether the *exceptions* to be made in determining income for tax purposes—as distinguished from income according to generally accepted accounting principles—are likely to result in substantial differences between the two "income" figures obtained. If "*many exceptions*" are present in a particular case, it is obvious that "income subject to Federal income taxes must be determined primarily by application of the Federal income tax laws." It follows, logical-

ly, that in such circumstances the client should seek legal counsel from an attorney qualified to supplement, with legal advice, the mathematical and financial determinations and evaluations of the accountant.

It seems to this writer that Mr. Yeager has provided a sound approach to the consideration of lawyer-accountant co-operation in service to taxpayer-clients. An extended discussion of this approach—which, incidentally, imposes a heavy responsibility on the accountant—seems to be merited.

EARLE B. FOWLER; Louisville

GROGAN AT TAX MEETING

(Continued from page 3)

activities of that committee at a meeting in New York on Thursday and Friday, February 8 and 9, 1951, which Grogan attended. His summary follows:

"Twenty-two of the twenty-eight members of this committee and its subcommittees met in New York Thursday morning at 10:00 a.m. and adjourned that evening at 10:00 p.m. and convened again on Friday at 9:00 a.m. until 5:00 p.m. The committee considered primarily the adoption of certain recommendations with respect to changes in the Excess Profits Tax Act of 1950 based upon either omissions, inequities, hardships, etc.

"Mr. Thomas Green, chairman of the committee, became ill and could not attend so the meeting was presided over by Mr. Wallace Jensen and Mr. Jack Seidman, who are chairmen respectively of two other subcommittees within the tax committee. It had been contemplated that these recommendations would be submitted to Mr. Colin Stamm, head of the joint congressional committee for early consideration, but we received on Friday at noon in this meeting a telegram from the clerk of the committee that the hearings to begin on February 15 would be limited strictly to matters relating to raising additional revenue without any changes in existing laws.

"The meeting of the tax committee in New York afforded a very enjoyable association with some of the best tax men in the Institute."

Objectivity in Auditing

A review by F. C. Schneider, Jr.

SCIENTIFIC METHOD FOR AUDITING

By Lawrence L. Vance, Berkeley, California
University of California Press, 1950. \$2.50

Ever so often all professions are subject to mild cases of indigestion occasioned by the appearance of new ideas whose acceptance would upset accepted practices and procedures. The profession of public accounting is no exception. As readers of the *Journal of Accountancy* are well aware, the use of statistical devices in auditing has been discussed before. The author, however, goes beyond the exploratory stage and develops a rather complete description of how statistical methods can be used as tools in the auditing of underlying papers such as canceled checks, sales invoices, and inventories.

The emphasis of Mr. Vance's exposition is directed to the selection of the audit sample to be used in the test-checking procedures, and the interpretation of the results of the audit. The approach is wholly statistical, and, as the author points out, is an attempt to inject into auditing procedure an objectivity which is impossible under present methods. The author has done an excellent job of presenting an idea grounded in algebra and calculus without requiring any more mathematical equipment of the reader than simple algebra.

A large portion of the book is devoted to discussions of the difference between the statistical approach to test-checking and that commonly used by the profession today, as well as the fact that the use of statistical methods is not an attempt to substitute inviolate rules for professional judgment, but rather to place in the hands of the accountant a valuable professional tool.

On the whole, the author has done a fine job of making an initial presentation of a new approach to the audit procedure of test-checking. He has, understandably, tried to meet the many objections which might be raised. The proposal made by Mr. Vance certainly deserves careful consideration by the profession, and the book can be recommended to anyone interested in new developments in auditing procedures.