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be studied. No great improvement in it will come until some one puts in some time doing so.

What better time than the lean stretch ahead to do some thinking? What better opportunity for us during the long pull to

the next busy season than to indulge in some self-examination and take steps which will result in greater satisfaction to clients in the work which we do for them? The end of the world is not yet. The sun is still shining behind the clouds.

Prepaid Expenses and Their Treatment in the Balance Sheet

By L. E. PALMER, Assistant Manager, New York 39th Street Office

APROPOS of the present interest in the relations among bankers, borrowers, and accountants, the consideration of prepaid expenses and other deferred charges and their treatment in the balance sheet may be worthy of attention. Accounting generally takes cognizance of such items and they are usually included in balance sheets properly drawn up. There is ample precedent for such procedure in the rulings of the Interstate Commerce Commission and other governmental bureaus and boards. The question is perhaps one of where they should be set forth in the balance sheet, rather than one of whether or not they should be included. The question bears partly on their value as quick assets, or the bearing which they have on the liquid condition of a given organization.

In respect of this group of accounts, comprising prepaid insurance, rent, taxes, etc., there is often a marked difference of opinion as between the manufacturer and the banker. The manufacturer frequently considers all expenses of this nature to be a part of cost. The banker generally holds all such items to be intangible, not possible of realization in cash, and therefore not properly included among the quick assets. There is an obvious inconsistency in the policy of the manufacturer who contends that insurance, rent, taxes, etc., constitute a part of his manufacturing cost, and at the same time, classifies a portion of such expenses under deferred

assets, whereas another portion has been included in the value of inventories of work-in-progress and finished goods.

Excepting there be need to compare production cost of factories owned and factories rented, the writer can see no great harm in the inclusion in operations of items of this nature, so long as they apply directly to property used for manufacturing purposes. He is of the opinion, however, that to conform strictly with economic theory they should be excluded from manufacturing costs and included in general expenses or deductions from income. In any event, the point is again made that if certain expenses are comprehended in manufacturing costs, any deferred portions of these expenses should be carried in the same section of the balance sheet as inventories. It is generally necessary to convert raw materials into finished stock, and finished stock into accounts receivable, before it is possible to realize any cash. It is necessary to do no more than this in the case of prepaid operating expenses.

The banker's attitude in the matter is generally opposed to the inclusion of such items. He casts them aside immediately in making his calculations. If they are set out separately, his work in this respect is facilitated. If they are merged with other items so as not to be readily recognized, the banker, through analysis, pursues them, so to speak, until they are identified and extricated from their con-

solidation with other items. It sometimes appears that the banker arbitrarily excludes them as the result of a predetermined policy, and without regard to whether such policy is or is not consistent. The banker is merciless in this respect, and usually takes the position that the subject is not open to argument. Any criticism of the banker's attitude must, however, always be tempered with the thought that he is prompted in his policy by the utmost conservatism. He takes no chances, and anything which is the least bit questionable is cast out without the benefit of any doubt.

In cases of forced liquidation of a business, there is of course little or no cash value in prepaid expenses, while there is a possibility of realizing some part of the original cost in the case of materials. It

does not appear reasonable, however, that the balance sheet of a going concern need be constructed on the basis of immediate liquidation. Value to a going concern is considerably different from value in the case of a concern facing liquidation. The banker in coming to his conclusions with regard to the desirability of a loan, takes into consideration so many other factors, such as character, managerial and business capacity, that he would not appear inconsistent, were he, in the case of a going concern, to give some consideration to the value of prepaid expenses. If they are properly included as an item of value from which financial condition is determined, they would appear to have some bearing on the liquid condition and to constitute one of the factors upon which the banker bases his judgment.

Comments as a Part of Accountants' Reports

By J. M. PALEN, of the New York Broad Street Office

(Continued)

Comments should be arranged in the order in which the items to which they relate appear in the statements, except that where one comment explains two or more items of an exhibit, both items may be included in the caption of the comment, even though one may be an asset and one a liability or reserve. Contra items are frequently treated in this manner. Other examples are the amounts due from and to foreign agencies, in connection with which we may wish to say that statements of account have not been received at the date of rendition of the report, but that they will be reconciled by us as they are received, and a supplementary report rendered, if necessary. Below is an illustration of a similar case:

"ADVANCE PAYMENT ON CONTRACT—
IN SUSPENSE—\$8,500.00.

"ADVANCE COLLECTION ON CONTRACT—
IN SUSPENSE—\$12,500.00.

"These amounts represent, respectively, a payment to the Roanoke Foundry Company and an amount received from the United States Shipping Board, on account of a davit contract subsequently cancelled, settlement of which is in suspense."

In cases of a first engagement, especially where the company is a newly organized one, it is sometimes appropriate to give a history of the concern, which may be covered in an introductory paragraph under "History." The date and place of organization should be shown, the purpose of the corporation, its capitalization, and, where there is any reason for its inclusion, a description of the property and the character of the operations, a list of the officers, or possibly other facts.