

1923

Year of thirteen months

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Recommended Citation

Haskins & Sells Bulletin, Vol. 06, no. 02 (1923 February), p. 11-13

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proposed establishment welcomed as a local enterprise, since the concern had a good reputation developed through years of dealing with the public, and was well known through its trade name.

By the end of nineteen twenty-one loans with twenty-three banks outside of the home-town had been successfully negotiated. From January to September of nineteen twenty-two relations were opened and amounts borrowed from sixty-eight new banks, while six of the banks on the list January first, made additional loans. The borrowings during this period amounted to \$650,000.

Here is a record of connections made with ninety-one banks in less than a year. They were mostly banks in second-class cities. Only two New York City banks are included. One was in, so to speak, for ten thousand dollars only four days. The other, which had loaned twenty-five thousand dollars, got in and out before the crash came.

When the receiver was appointed October first, the indebtedness to seventy-three banks, well spread over seven eastern states, totaled \$670,000. The average, exclusive of the home-town banks, was

about \$9,000. Of the latter, one had succeeded in getting out altogether. The other three had received in the aggregate a reduction of about forty per cent. of their loans.

This elaborate scheme of futile financing at the expense of the banks was accomplished on character and confidence, and without a sign of financial statement, certified or otherwise. It is inconceivable that it could have occurred had the banks in question exercised any kind of precaution. No elaborate department for checking credits was needed. So simple a device as a certified statement with appropriate schedules or details would have saved the banks collectively many hundreds of thousands of dollars.

Is it any wonder that a shrewd banker like Mr. Francis H. Sisson, Vice-President, Guaranty Trust Company of New York, was moved recently to remark, "The best method of ascertaining the financial position of an individual or a concern is to analyze the balance sheets. For current use a statement should be not more than six months old and most banks will ask that it be audited by a certified public accountant who understands such work."

A Year of Thirteen Months

ONE sees frequently nowadays reference to the agitation in favor of changing the calendar so as to provide for a division of the year into thirteen equal months instead of the twelve unequal months by which our time is measured. A recent editorial in one of the leading daily papers credited accountants with being keenly in favor of the change. The editorial failed, however, to point out the basis for such preference.

There are always persons who are keen for change. Many individuals would not be deterred by a suggestion that they revise

the tariff. Any number might be found who would be willing to frame a new federal tax law. The person would indeed be brave who would attempt to change the calendar without long and careful consideration.

Those progressives who are keen for change point out the benefits which would be derived from having months of equal duration. Mr. Moses B. Cotsworth, in a pamphlet issued by The Pan American Union, entitled "The Evolution of Calendars and How to Improve Them," has the following to say on the subject:

"We are constantly forced to consult the calendar to trace how many weeks intervene between any given dates, and to ascertain the weekday names throughout the months. Periodical business and social meetings held on selected weekdays have to be described in bylaws, etc., as the 'first and third Wednesdays,' 'the Friday nearest the twentieth,' etc. Dates for national holidays, festivals, etc., falling on Sundays have to be postponed by proclamation, etc. Bank drafts, trade bills, etc., due on Sunday have to be held over, and one day's interest thereon lost. Monthly trade balances, wage adjustments, etc., are complicated by weekly wages being split up in the weeks which, beginning in any one month, quarter, semester, or year, end in the next following. Nine of the months extend into five weeks, and three into six, as a glance at the chart will show.

"There were five Saturdays each in January, April, July, October, and December, 1921, when housekeepers were calendar-forced to buy a fifth week's supply of meats, groceries, etc., out of equal monthly income quotas. Many thus trend to fall into debt, or seek to 'sub' from husbands who are also found shorter of cash at the end of the longer months. These shortages result in family, business, and other troubles, directly attributable to the unequal months of our calendar.

"Conversely, storekeepers in the months of five Saturdays are encouraged by their inflated incomes to overbuy, which is apt to cause trouble the next month when fewer Saturdays and sales fail to provide sufficient income to pay for the longer month's purchases, with the resulting tendency to force retailers and others into debt, etc."

It is also contended by others that our present calendar results in comparisons which are misleading with regard to income and expense, and that this is particularly true with regard to cost statistics. These contentions undoubtedly have some basis of fact. It will be seen at once that the statement is true of income and expense compared from month to month. It is also true with respect to the overhead element in costs where items of expense entering into overhead are on a fixed monthly basis. Mate-

rials and supplies, if properly handled, namely, on a basis of consumption, are apparently not affected, except in minor instances, so far as certain supplies are concerned, because the relation of material to units of production is one of quantity and not of time.

Labor, in the same way, even though the wage may be based on time rather than quantity, is scaled for cost calculations, so that it bears a direct relation to the production. This statement, of course, excludes from consideration any idle or dead time which may have to be prorated.

With regard to the overhead, it must be admitted that there are contained therein certain items which are fixed on a monthly basis; for example, factory superintendence, office salaries, depreciation, and, in some instances, rent, insurance, and taxes. The two latter items, even though covering a year, are proportioned on a basis of twelve months and have an effect on the unit cost as between two months in which the number of days differs.

For purposes of illustration, assume that the daily production of a given plant is three hundred units, and apply this daily production to two months: one having twenty-seven working days; the other, twenty-four. It is then apparent that the production in one month will be eighty-one hundred units; in the other, seventy-two hundred. Assume further that the items of overhead which are fixed on a monthly basis amount in each month to \$8,100. Calculation of the overhead cost per unit shows that in the month of twenty-seven days the cost is \$1; in the month of twenty-four days, \$1.12½. The lower cost per unit in the month of more days obviously is because of the fact that the overhead per month is fixed, while the production is greater because of the greater number of days. No matter what other fluctuations in production might affect the result, it would apparently never be possible to get

away from the fundamental variation resulting from the invisible cause. The effect on selling costs is even more pronounced because of the fixed monthly charges entering into the general overhead.

The change in the calendar, unless, perchance, the Einstein theory may serve in some way to revise astronomical science, is confronted with a normal year having an odd number of days. It is therefore not divisible into thirteen equal parts without a remainder of one day. Every four years there would be two days over. It will, therefore, be incumbent upon someone, in the event of a change, such as is suggested, to find not only a name for the thirteenth month, but provide some disposition of the odd days. The suggestion has been made that these days be declared holidays and forgotten by mutual consent.

After clearing up simple matters of this kind there would still be one or two others which would need consideration. As far as may be seen, the change would make no practical difference in balance sheets. In statements of income and expense comparisons by months would be facilitated. There would be no effect with regard to statements covering yearly periods. Statements for quarters or half years would be more difficult. Still, after one had become accustomed to the change, it would probably not seem odd to have a statement for the half year ended July 14, or described in some similar fashion.

The practice of rendering invoices at the end of each month as at present would probably be very little affected by the change, and invoices would be rendered automatically at the end of each month, even though there were only twenty-eight days involved. Some of the other things to be considered, however, are what would happen in the case of interest on enforced holidays. Would the interest be forgotten like the holidays? Would interest on odd days be figured as so many twenty-

eighths of a month or as three hundred and sixty-fifths of a year? What would happen with respect to corporate bonds now outstanding and dated as to maturity, to say nothing of the millions of coupons now outstanding and dated for payment? Add to these contracts for services on a monthly basis in force at the time of the change.

Material contracts calling for the delivery of certain quantities per month would be upset. Service contracts calling for compensation on a monthly basis would result in increased compensation for the year. Personal expenses, like rent, would be increased for the year by reason of having thirteen months, as would also minimum charges for electricity, telephone, etc. On the other hand, salaries paid by the month would result in additional compensation for the year, unless such compensation were to be adjusted to a new monthly basis, in which event salary tables based on twelve months would necessarily have to be revised.

There are doubtless many other ways in which business and accounting would be affected by a change in the calendar. A change may be desirable, but it should only be made after the most exhaustive study of the effects which the change would bring about. The benefit to be derived in cost accounting seems to be one of the best arguments in favor of a change. It should be pointed out, however, that it would be impracticable to place cost accounting on a basis of thirteen months except there should be a general change which would provide for the rendering and dating of invoices. Great difficulty would probably be experienced were an attempt to be made to adjust purchases on a twelve months' basis to the requirements of a system operated on the basis of thirteen months. The whole subject of changing the calendar should serve as choice food for thought on the part of anyone whose mind is not sufficiently occupied at this season of the year.