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## Correspondence: Let Us Get Together

G. V. W. Lyman

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## Correspondence

### LET US GET TOGETHER

*Editor*, THE JOURNAL OF ACCOUNTANCY:

SIR: Referring to the excellent article of G. C. Shannon on *The Shoe Manufacturing Industry* appearing in the October JOURNAL, I note that in his form for profit-and-loss statement, Mr. Shannon deducts discounts allowed customers from his gross sales and also deducts discount on purchases from his cost of materials instead of including the item "discount" under the administrative and general section. I fully appreciate that accounting authorities have made such a procedure permissible; however, where the practice of deducting discounts from purchases and sales is used, it is generally pointed out that the amount deducted from sales should be the full discount which customers can take, and the amount deducted from purchases should be the full discount that could have been taken if all allowable discounts had been taken advantage of, and, in the administrative and general section, offsetting accounts should be set up to show the difference between the amount of discounts allowable in each case and the amount of the actual discounts taken in order that a proper picture might be shown of the financial condition of the company and of its ability to take advantage of the cash discounts.

I believe it high time that the accounting profession take a definite stand on the question of discounts, and it is my opinion that the majority of the profession today leans to the showing of discounts received and taken in the financial section of the profit-and-loss account in conjunction with interest received and interest paid accounts. I believe this is particularly necessary in this period of stress, when it is important to the stockholders of a company to know whether or not financial conditions of the company permit it properly to discount its bills and, if so, what penalty in the shape of interest it pays to place it in position to take advantage of these discounts.

To illustrate my point, I well remember a partnership existing between three of my friends about forty years ago. In this partnership, an elderly gentleman, of ample finances, agreed to finance two young men of his acquaintance in the wholesale notion business. He furnished the capital and received as his share of the profits all the cash discounts taken by the firm, and the two young men received as their share of the profits that portion of the profits which was made by the merchandising part of the business. With this picture in mind, I have always been a strong advocate of showing interest and discounts in the financial section of the profit-and-loss statement, of their elimination as a part of the cost of merchandise and of their use as a reduction of the amount received for sales.

With the public and the bankers insisting that accountants' statements be made to clearly reflect business conditions and because of the charges by the public and the bankers that accountants' statements are confusing because of different treatments of the same items by different accountants, I respectfully suggest that we eliminate one of these causes of confusion by establishing a fixed method by the professional accountants in the treatment of discounts. I should like to see this subject fully discussed in THE JOURNAL and later some

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definite action taken by the Institute membership as a whole or by the council as the representative of the membership.

I would suggest the advisability of publishing this letter in THE JOURNAL OF ACCOUNTANCY in order that the subject may be discussed through this medium, as a preliminary to some definite action by the Institute.

Yours truly,

G. V. W. LYMAN.

New Orleans, Louisiana.