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Comment and Idea Exchange

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Comment and Idea Exchange

MARION E. DAVIS

ABNORMAL CREDIT LOSSES

According to Dun & Bradstreet, about 99 per cent of all commercial transactions in the United States and Canada are on credit terms.

No manufacturer, or wholesaler or other business enterprise can expect to follow a general policy of selling on credit without having some bad debt losses. These expected losses become a cost of doing business.

But what about the "abnormal" credit losses—the ones that can cause real trouble for business concerns?

Consider the loss risks in the following cases:

1. Concentration of sales in a few accounts.
2. Concentration of customers in one line of business.
3. Concentration of customers in a particular region.
4. Multitudinous small accounts.
5. Custom manufacturing in significant amounts.

By the very nature of their business, many firms find themselves facing one of these situations. Among manufacturers, about one out of every nine failures, and among wholesalers, about one out of every six failures, is due to "receivables difficulties."

On the other hand, if an overly cautious credit policy is followed which restricts sales volume, growth may be checked and profits reduced.

"Inadequate sales" are responsible for more than half of the failures among manufacturers and more than two-fifths of the failures among wholesalers.

Whether a firm is small or large, the question to be resolved is: How does the amount of its loss-taking capacity compare with the amount of the possible credit losses to which it is, or may become, exposed?

For the manufacturer, wholesaler, advertising agency, or other service organization dealing with business firms, protection against abnormal credit losses is available through commercial credit insurance. This special type of insurance is an arrangement between an insurance company and a business firm under which the firm as the insured is guaranteed indemnification against *abnormal credit losses* arising from failure of business debtors to pay.

Education is man's going forward from cocksure ignorance to thoughtful uncertainty.

—Kenneth M. Johnson

A GOOD USE FOR RED INK

Many years ago, as an identifying measure in pricing a physical monthly inventory based on FIFO, I used a different colored pencil (red) for the cost taken from the current month invoices.

The manager of the company liked it at once because he could see at a glance which were the items that moved fast enough to replace in 30 days. The inventory sheets used were adaptable for comparison.

The year end auditors liked it also because it indicated in which month to verify prices. They passed this on to sister corporations to become an established procedure.

Dorothy W. Fulrath, Rockford Chapter

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ADVERTISING RESULTS

Just how important is advertising in the U. S. economy? Total advertising expenditures have zoomed from \$2.9 billion in 1945 to \$11.1 billion in 1959. This was more than one-third of what business spent for new plant and equipment in 1959. The trouble with these expenditures is that no one knows precisely how productive they are. Why is advertising so important in an industry like tobacco where there is little price competition? Has advertising helped lower prices by expanding sales? We don't know—and we should.

—Challenge Magazine

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POINTS TO PONDER FROM PREVIOUS ISSUES

"Planning is the first responsibility of management. A company cannot survive unless it plans for the future—and not just for next year—but for several years."

—August, 1959

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"A business decision is only as good as the facts and other information which serve as the basis for the decision."

—December, 1961

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"Accounting is, by its very nature, a record of the past. Its chief use to management, however, is as a basis for predicting the future. This is not to say that the past is a sure guide to the future, but it is certainly worthy of consideration."

—April, 1959