Journal of Accountancy

Volume 43 | Issue 6 Article 8

6-1927

Correspondence: No-Par Stock; Treatment of Reserves

Carl B. Robbins

Frank W. Thornton

Harold C. Anderson

Correspondence

NO-PAR STOCK

Editor, The Journal of Accountancy:

SIR: In the April issue of THE JOURNAL there appeared a review of the author's book *No-par Stock*. This review, which was written by Frank W. Thornton, contained some erroneous quotations and statements that require correction.

Mr. Thornton quoted the author as having said, on page 140 of the book, that in showing no-par stocks on the balance-sheet, accountants have "acted in sheer ignorance of the facts." This was a mistake; the word ignorance does not appear. The substitution is unfortunate because the word ignorance is of course irritating to the accused. Two identical erroneous substitutions of the word occurred in the course of the review.

Another erroneous statement of fact is made in connection with a criticism of the terminology that is followed in the book. Mr. Thornton condemns the author's use of the term "stated capital" and suggests that a term of his own, "legal capital" would describe the concept more accurately. The reasons for the author's choice of the term "stated capital" are set forth in a footnote on pages 20–21. The review did not refer to this. Mr. Thornton stated that, "As a result of this unfortunate terminology we find the author on page 30 defining the stated capital as being the stated capital plus something else." The erroneousness of this statement may be corrected by quoting from the book the sentence to which reference is made: "The amount of the stated capital of a corporation which has issued both par and no-par shares is the amount attributable to the no-par shares plus the aggregate par value of all shares having a par value for which subscriptions have been accepted by the corporation."

The review might tend to give the reader an incorrect impression of the author's attitude. It was stated that, "A quotation from page 140 of the book will serve to indicate the author's views, attitude and methods." This is followed by some quotations which, when removed from their context, would give the reader an impression that the author's attitude is harshly critical and perhaps destructive toward the accounting profession. This again is an unfortunate mistake. The reader of the review is not informed that the author is himself an accountant who has the interests of the profession at heart. The attitude of the author and intended constructive character of the book may be shown by quotation. For example, on page 143: "It is earnestly hoped that accountants will do all in their power to gain the support of no-par-stock corporations in maintaining the proper division of net worth into stated capital and surplus. The accountant may find the following arguments useful in winning his clients' support." This is followed by an enumeration of six arguments which the accountant may find helpful. Examples of the intended constructive character of the book could be multiplied. The fundamental method of the book is to attack the various problems by an analysis, to point out the possible fallacies in present laws and accounting practices, and to suggest in each instance a possible change for the better. The author's attitude is unmistakably evinced by the book itself.

The review contained certain statements which might lead the reader to believe that the book is unreliable and unauthoritative. For example, it was stated that, "The book is one which should be used only with care." This was not substantiated by pointing out any errors of theory or gross misstatements of fact. No criticism of the proposals of the book was given. But by repetition it was implied that the author's suggestions might be unreliable on account of the author's "relatively limited experience." It may be suggested that extended experience is not absolutely prerequisite to careful investigation and analysis.

The review contained no reference to the proposals or scope of the book; no mention was made of what the book undertook to accomplish or whether it succeeded. Criticism was centered on personal matters and unimportant detail, including extended criticism of two relatively unimportant footnotes and the citation of an exception to a generalized statement. The review was strictly derogatory throughout.

The cause of the review may be explained by the possibility that Mr. Thornton did not recognize that the author felt it necessary to emphasize some of the fallacies that are current in accounting practices in order to initiate the suggested changes, and was offended by the emphasis. If this is true, the author is regretful.

Yours truly,

CARL B. ROBBINS.

Cambridge, Mass., April 13, 1927.

Editor, The Journal of Accountancy:

SIR: The reply of Carl B. Robbins to the review of his book is before me. He is correct in his statement that he said accountants acted in sheer "innocence" of the facts, not "ignorance." I apologize to Mr. Robbins for the mistake and if the "accused" accounting profession feels aggrieved at being charged with being innocent of facts rather than ignorant of them I apologize to it also.

Apart from this point, however, the reply seems to call for no modification of the criticism offered in the review.

Mr. Robbins suggests that the quotation from page 140 is unfair because it is removed from its context. It covers two complete consecutive paragraphs, in which the author formally undertook to state the "attitude of accountants."

He complains that his attitude towards accountants is misrepresented, but the illustrations he gives merely emphasize his pedagogic attitude, and his reference to them as the "accused" is an illuminating, if unconscious, disclosure of his state of mind.

The author's discussion of the criticism that he relied on second-hand evidence is unconvincing. There is nothing in the accounts of Famous Players Lasky Corporation for 1921 to suggest that its no-par stock was then stated on the basis of its market value, but the author, on his own statement, was content to give further currency to the suggestion that the corporation's accounts, certified by responsible auditors, contained an egregious error of which he could find no other example in the published reports of corporations.

Mr. Robbins says I "assumed that the shares were carried at their stated value." I did not assume anything; that is not the procedure followed by accountants. I investigated, as Mr. Robbins might have done, obtained precise information and gave it; and I did not call the value at which it was set up "stated" value.

Essentially the criticism of the book was that it lacked depth and breadth of scope and of understanding. The author's reply fails to dissipate this impression.

Yours truly,

FRANK W. THORNTON.

New York, April 18, 1927.

TREATMENT OF RESERVES

Editor, The Journal of Accountancy:

SIR: I have read with interest Professor Cole's article entitled, *A Confusion of Terms* in the March number of THE JOURNAL OF ACCOUNTANCY.

I agree with the author that the word "reserve" is not the most happy one to use in connection with depreciation. I do not, however, agree with his assertion that a reserve for depreciation represents nothing but an over-valuation of assets. To my mind it is also a liability for the restoration of the impairment of capital assets. It is an estimated liability to be sure, but nevertheless a liability which must be met sooner or later if the business is to continue to operate on a paying basis.

In order that the liability aspect of a reserve for depreciation may not be lost sight of, I favor its being shown on the liabilities side of the balance-sheet instead of as a deduction from the asset, as in the case of a reserve for uncollectible accounts. In preparing the profit-and-loss account, depreciation is considered as an expense. Instead of designating the liability for depreciation as an "allowance," why not simply call it "accrued depreciation," the same as accrued wages, accrued taxes or other expenses which have accrued but which have not been paid?

Yours truly,

HAROLD C. ANDERSON.

Washington, D. C., May 9, 1927.