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Correspondence

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"A BRIEF NOTE ON SEASONAL VARIATION"

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: Even those who are unable or unwilling to follow the application of Mr. Fisher's mathematics and regard with envy the process by which, according to your interesting biographical note in THE JOURNAL for September, he acquired his knowledge, will no doubt be willing to accept his not very revolutionary conclusion that "the measurement of seasonal variations in business and accounting data is of considerable importance."

While accountants are not called upon to defend the Harvard committee on economic research, Mr. Fisher raises a broad issue of interest to them in his discussion of a statement that the Harvard method "demands no prior theory; on the contrary, the essence of this procedure is that the facts should speak for themselves, should themselves surrender the truth, and to do so must be left in the first instance stark and not be veiled by preconceived ideas or the fabric of elegant theories." Mr. Fisher's comment is:

"But, unless the author either is an unconscious humorist or purposely has indulged in a bit of good-natured spoofing—and these are possibilities not to be ignored or lost sight of—all these high-sounding phrases have the false ring of sophomoric blurbs. For observations and experiments are of scientific value only in so far as they are supported by a reasoning process."

This last sentence is vague and its meaning far from clear. But, unless it is irrelevant, it must imply that in Mr. Fisher's view the scientist who makes observations and experiments with a full knowledge of conflicting theories that are current in regard to the subject matter of his experiments, without committing himself to any one of them, is less likely to reach a sound conclusion than the observer who first formulates a theory and then makes observations and experiments (which must usually be selective, not exhaustive) to determine whether it is valid.

A great authority in the field of physiology has recently said of a path-breaking work in that field (Beaumont's, *Experiments and Observations*):

"In the century lying between 1833 and 1933 thousands of other books were written and published and praised, and had their brief day and ceased to be. But this book had permanent value. What was its quality? It was a simple, straightforward report of a scrupulously

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honest man, who used his senses cautiously in an important scientific inquiry, who recorded exactly how he used them and what they revealed to him, and who drew carefully limited inferences from the observed facts. And the report became a classic in the history of medicine."¹

The approach to scientific investigation which won this encomium after the lapse of a century is that which accountants seek to emulate.

The wish is often father to the thought, and the temptation to interpret or even to present facts so as to support a theory already adopted is ever present—indeed, Mr. Fisher seems not to have been immune from this temptation. He speaks of the article from which the quotation is taken, and which he criticizes with more than a trace of superciliousness and less than the customary courtesy, as bearing "the high imprimatur of Harvard University Press"; he gives no indication, in a footnote or otherwise, that what he is quoting is really a statement made by a person² in no way associated with Harvard, and setting forth that person's impression of the procedure and objectives of the committee on economic research of Harvard University. Thus, ironically, he illustrates the danger inherent in investigations undertaken to support preconceived ideas which was recognized by the distinguished author towards whom he adopts so superior an attitude.

Yours truly,

BISHOP C. HUNT

New York, N. Y.

STUDENTS' DEPARTMENT

Following are excerpts from correspondence relating to discontinuance of the Students' Department:

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: It is probably true that we, who are teaching, made more use of the Students' Department than did practising accountants. I have made a practice of assigning those problems to the students to be studied, and in that way my students have become familiar with THE JOURNAL. . . .

I feel that with the elimination of that department you will lose the interest of those younger people who should be the members of the Institute in the future. . . .

Yours truly,

M. L. BLACK, JR.

Durham, N. C.

¹Dr. Walter B. Cannon, *Digestion and Health*, New York (1936), p. 12. Mr. Fisher's interest in physiology is, to judge from the footnote on page 180 of his article, still that of the small schoolboy.

²Mr. A. Loveday, director of the financial section and economic intelligence service of the League of Nations. His paper was entitled "The League of Nations and business cycle research."

The Journal of Accountancy

It is with much gratification that I read the editorial in the September issue of THE JOURNAL OF ACCOUNTANCY explaining the absence of the Students' Department. I first subscribed while at business college, and have continued my subscription primarily because of the Students' Department. . . . However, if this department is abolished from the magazine, the supplemental pamphlet mentioned in the editorial would probably suffice.

Listen to the plea of one who regards himself as a true student of accountancy, and in no event take entirely away from us students the Students' Department.

Yours truly,

PAUL C. SPIESE

York, Pa.

I have been a subscriber to THE JOURNAL for 18 years and I have always been much interested in the Students' Department and regretted the disappearance of it. . . . Heretofore this information was available quite promptly after the examinations were given. Under the plan proposed it will be something like a year before this will be available, so far as one set of examinations is concerned. . . .

Yours truly,

R. A. WESTON

New Haven, Conn.

I have been an enthusiastic reader of THE JOURNAL for more than a decade and, of all the departments therein, I have found the Students' Department the most interesting as well as beneficial to me personally. . . .

Truly, *seeing* is not only *believing* but *understanding*. Many a time I have sat in class and listened to long lectures—and splendid lectures at that! But all the while I was conscious of the fact that what I needed was the odor of crayon dust as it should have been wafted from the blackboard by the professor in a healthy demonstration. So my vote is "No" to the discontinuation of the Students' Department in the "old style."

Yours truly,

P. Z. REID

New Orleans, La.

Although not a certified public accountant, I find that my job as a sales tax auditor for the California state board of equalization requires that I keep up on phases of accounting theory and practice not directly in line with my work. To sit down once a month and work a problem or

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two and then compare that problem with a well considered solution is one of the best ways I know to keep abreast.

From my point of view the annual pamphlet would be of no greater advantage than going out and buying any good book of problems and solutions. . . . I hope that enough others feel the same way to cause you to resume the Students' Department.

Yours truly,

W. E. COOMBS

Los Angeles, Calif.

I started reading the magazine as a student because of the benefit I received from the problems and solutions, and have found them just as interesting and instructive to this day. Learning does not stop with graduation.

By all means, restore the Students' Department. It deserves every inch of space it takes up. . . .

Yours truly,

MEYER RISMAN

New York, N. Y.

Give us back the Students' Department without interruption of the long continued sequence in the regular numbers of *THE JOURNAL*. . . .

THE JOURNAL has come to be generally accepted as the publication of the entire profession of accountancy. Its readers outside of the membership must be far larger in number than are those within the membership. . . . Most of these non-members of the Institute are keenly interested in the Students' Department. I think it is an obligation of the Institute to fill that need. . . .

Yours truly,

HERMANN C. MILLER

Columbus, Ohio

Regret your discontinuance of Students' Department. Had considered it a vital, essential part of the publication.

Yours truly,

HARRY SANDLER

Roxbury, Mass.

ELIMINATION OF CENTS

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: The note in the August *JOURNAL OF ACCOUNTANCY* on the subject of eliminating cents from the balance-sheets and other financial statements interests me for the reason that I hope that the Institute will not advocate the suggested practice.

The Interstate Commerce Commission's instructions, to which reference was made in the editorial, reads as follows: "Money items (except averages) throughout this annual report form should be shown in units of dollars adjusted to accord with footings."

Following these instructions throughout the voluminous annual report required to be filed with the Commission is a nuisance and a hardship unnecessarily imposed on those who are required to prepare the report.

Take the balance-sheet as an illustration: After the cents have been dropped from all the items and from the grand total, the latter does not agree with the sum of the items. To bring it into agreement necessitates arbitrarily increasing selected items by one dollar, adjusting them "to accord with the footings."

It seems to me that the practice unconsciously indulged in by most persons as they read financial statements is to disregard, not only the cents, but also the hundred dollars. Either the cents should not be omitted or, if there is sufficient merit in the suggestion, it should be carried out further, to the extent of eliminating the hundreds of dollars as well as the cents.

Yours truly,

E. J. GREANEY

Honolulu, Hawaii

TREATMENT OF PREPAID SALES TAX RECEIPTS

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: My attention has been called to the question on Ohio sales-tax receipts in the July JOURNAL OF ACCOUNTANCY. The matter is certainly a rather picayune one, as suggested in the second reply to the query, but since the editors have thought it of sufficient merit to be published, it seems worth a correct answer. Apparently neither of those who replied were familiar with the Ohio sales tax. The tax is one of 3 per cent. on retail sales, and the seller is required to collect the tax from the buyer. In theory he is merely the collecting agent for the state. Instead of remitting to the state after collecting, however, as is done in Michigan and quite generally elsewhere, the Ohio retailer "buys" tax receipts from the state in advance. These receipts he gives the customer as he collects the tax. Thus he invariably gets cash for his sales-tax tickets, whether from the customer in the ordinary course of business or from the state as a refund. The sales-tax tickets do not constitute prepaid expense, as seems to be assumed by the respondents to the question. There can hardly, therefore, be any reasonable argument against including them among current assets. (Incidentally, my definition of current assets would include them in this category even if they were prepaid expense.)

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To indicate the relative insignificance of this item in the balance-sheet, I have before me the annual statement of the Halle Brothers Company, of Cleveland. This contains (properly shown among the current assets) Ohio state sales-tax stamps to the amount of \$32,712. This item constitutes approximately .3 per cent. of the company's assets and represents about .2 per cent. of the annual sales, or slightly less than one month's average requirements.

Yours truly,

H. F. TAGGART

Ann Arbor, Mich.

CONTINGENT LIABILITIES AND ASSETS

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: I have read with great interest the question and answers concerning the method of showing the contingent liability on the balance-sheet printed on page 139 of your August publication.

I don't quite understand why this liability would be shown on the balance-sheet of the finance company. It seems to me it should appear on the balance-sheet of the company who has sold its paper to the finance company. There is one other question that comes up in consideration of this question which has not been mentioned; that is, should any consideration at all be given to the contingent asset which, in most cases of this kind, exists? If a company sells the finance papers to a finance company under an agreement to repurchase the papers and the equipment covered by said paper, the company certainly comes into possession of an asset of some value. Consequently, if the company has a contingent liability it also has a contingent asset which, in my opinion, should not be ignored.

Another question that comes up in connection with this problem is, what should the basis of a contingent liability be—the maximum liability that a company will be called upon to meet or a maximum loss that a company will be called upon to absorb? I will cite a very simple illustration that will make my point clear. Assume that a company sells a refrigerator for \$150 which cost the company \$100 to manufacture. If the company selling the refrigerator takes a note for it in the amount of \$150, which the company, in turn, sells to a finance company under a repurchase contract, it has a contingent liability of \$150. On the other hand, should the refrigerator be taken back, the company then comes into possession of an asset that has a value of \$100. Consequently, the company stands to lose \$50. (Of course, I am assuming that the refrigerator has never been used.) I have heard some accountants argue that, in stating a contingent liability under this specific problem, it should be stated at \$50, which is the amount the company stands to

lose, and not \$150, the amount the company may be called upon to reimburse the finance company.

I will appreciate any additional information you might give me on this subject.

Yours truly,

W. EARLE TOLLEY

Baltimore, Md.

The author of one of the answers to the problem published in the August issue has replied to Mr. Tolley's letter, as follows:

We agree that the contingent liability should be shown on the balance-sheet of the company which sold the paper and not on the balance-sheet of the finance company. However, the language of both answers published on page 141 of *THE JOURNAL OF ACCOUNTANCY* for August seems to make this clear, although the heading was not.

Consideration of the various contingent liabilities which it is customary to record on balance-sheets will show that in almost every case there is a consequent contingent asset, but it has not been the practice of accountants to record the contingent asset, nor do we think that such practice is necessary. If it is desired, however, the language of the note stating the contingent liability may be framed to set forth that the contingent liability carries with it a contingent asset.

It is our opinion that the maximum liability that the company could be called upon to meet should be stated in the note but, here again, the language may be framed to show that the experience of the company has been that only such and such percentage of the maximum will have to be provided.