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## Correspondence: "A Brief Note on Seasonal Variation"; Treatment of Prepaid Sales Tax Receipts

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## Correspondence

### "A BRIEF NOTE ON SEASONAL VARIATION"

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: For quite a number of years now, Mr. Arne Fisher has with great good grace carried out the thankless rôle of gadfly to the body politic of American statisticians. His unremitting inquiries into the logical foundations of jerry-built probability structures have earned him unstinted encomia from such outstanding physiologists as Professor Raymond Pearl of Johns Hopkins University and Professor H. Williams, Dalton professor of physiology at Columbia University. His unique and faintly apostatic style has won him a faithful audience of heretics, extending far beyond the chill corridors of science that are the natural habitat of his subjects.

The field of time-series analysis which Mr. Fisher has now entered, with his recent "Brief note on seasonal variation" (September, 1937), is one that fairly bristles with controversial points. Mr. Fisher's entire approach and methodology, his use of orthogonal functions in connection with periodic business data, will certainly not fail to evoke more or less acrimonious comments.

It is somewhat disappointing, therefore, to find that the first repercussion in public print (October, 1937), aside from pejoratives and an indignant repudiation of Mr. A. Loveday as spokesman for Harvard, is devoted to an airing of Mr. Bishop C. Hunt's doubts as to the propriety of the classical method of scientific approach.

In the course of his remarks Mr. Fisher said, with model caution: "For observations and experiments are of scientific value only in so far as they are supported by a reasoning process." This, Mr. Hunt finds "vague," "far from clear," if not "irrelevant." It is scarcely the time, some 2,300 years after Plato, nor can there be any need in these columns to labor the point, but it is possible that a few quotations from philosophers that have given a lifetime of thought to science may reassure Mr. Hunt that he will find himself in odd company if he wishes to eliminate a modicum of reason from his observations.

Thus Henri Poincaré, in *Science et Hypothèse*: "A collection of facts is no more a science than a heap of stones is a house. . . . Bare facts are not enough for us, and that is why we must have ordered science. . . . Experiments made without preconceived ideas are impossible." Or Harald Höfding speaking in *Modern Philosophy* of Galilei's work on mechanics: "We deduce beforehand and altogether a priori, and

then proceed by induction or by experiments to show that the deduction can be verified."

Yours truly,

K. FICK

New York, N. Y.

*TREATMENT OF PREPAID SALES TAX RECEIPTS*

*Editor, THE JOURNAL OF ACCOUNTANCY:*

DEAR SIR: In the October issue of *THE JOURNAL* appears a letter from Mr. H. F. Taggart, in which he discusses the balance-sheet position of Ohio sales-tax receipts. In this letter is the flat statement that such sales-tax receipts do not constitute prepaid expense. Mr. Taggart does not define prepaid expense so that the reason for his statement may be made apparent.

Prepaid expense may be defined, I think, as the regularly recurring expense, occasioned by expenditure (to rule out unpaid items such as prepaid interest and debt discount), the benefit from which has not been received at a balance-sheet date but which will be received in a later accounting period.

The handling of sales-tax receipts in Ohio gives rise to gross income. The receipts are purchased by the vendor at a discount of three per cent. Vendors' reports to the tax commission are predicated upon a three per cent. tax, but the brackets used in applying the tax to the sales amounting to fractional parts of a dollar cause the actual application of the tax to vary from three per cent. to about four per cent. of sales, depending upon the particular retail field and other conditions. Clerks seldom forget to charge the tax but frequently fail to hand out the receipts to careless purchasers, with the result that many firms must pay substantial sums to the tax commission at the time of reporting since the computation on the report shows that the cancelled receipts fail to equal even a minimum of three per cent. of the sales subject to the tax.

Even though sales-tax receipts appear on a balance-sheet because of statute rather than policy, it does seem to me that they fit precisely under the caption of prepaid expense. They are regularly recurring, and they constitute a necessary cost in the securing of sales and income, and hence may be considered an expense even though they are not an ordinary type of expense. Certainly sales-tax receipts do not fall into any of the customary current-asset groupings, for they are not cash, not temporary investments and not receivables. They are not exactly comparable to an inventory of merchandise which is sought by a purchaser to satisfy a particular want, but are rather a concomitant of the merchandise, and in this respect are not too dissimilar to ordinary sales supplies.

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I agree with Professor Taggart that Ohio sales-tax receipts are a current asset but only because I believe prepaid expense as I have defined it may properly be included under the caption of current assets. When prepaid expense is to be excluded from current assets—a practice with which I am not in sympathy—Ohio sales-tax receipts still belong under the caption of prepaid expense.

Yours truly,

CHARLES T. SWEENEY

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