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Correspondence: What the Borrower Owes; "Jobs"

Walter K. Mitchell

Walter C. Wright

C. E. Freeman

Correspondence

What the Borrower Owes

Editor, The Journal of Accountancy:

Sir: I have read with much interest the article *The Tyranny of the Engraver,* by Mr. Arthur S. Little, that was published in the September JOURNAL. If all of the principles laid down by the author are followed, many of those accepting them, I believe, would have their careers interrupted by a term of imprisonment.

In his recapitulation "of some of the more important tenets of the controvertist school of investment accounting" he says, among other things, that "the purchaser invests what he pays out," and that "the maker of the bonds is indebted for what has just been received." Now, if I understand this last sentence, after taking into consideration what preceded it, it means this, that if a corporation sells a hundred-thousand dollar issue of bonds for ninety thousand dollars, the liability of the company is only ninety thousand dollars and the transaction would appear in the balance sheet immediately after the sale in this manner:

Assets		Liabilities	
Cash	$90,000.00	Bonds payable........	$90,000.00
Real estate...........	150,000.00	Capital stock..........	150,000.00
	$240,000.00		$240,000.00

Now let us suppose that the company has authority under its charter to sell stock up to two hundred thousand dollars, and that on the strength of the above balance sheet the directors sell the remaining fifty thousand dollars' worth of the authorized capital. When the purchaser of this stock learns that the company had liabilities amounting to one hundred thousand dollars instead of ninety thousand, do you not think that he would be justified in suing the directors for fraud? It seems so to me, because they clearly knew that the company had promised to pay the larger of the two amounts, and it appears to me to be nothing but misrepresentation to say that it is only liable for ninety thousand dollars.

In another part of the article the author writes that, "it is my firm conviction that modern accountancy will never arrive anywhere . . . until the public accountants of the world have consigned par, premium, and discount to the . . . junk pile . . . and adopt the simple doctrine:

"That an investor invests (lends) the sum he parts with,

and

"That a borrower borrows the sum he receives."

A borrower does not owe what he receives or borrows, but what he duly promises to pay.

Yours very truly,

Los Angeles, California. WALTER K. MITCHELL.

Editor, The Journal of Accountancy:

Sir: The article entitled *The Tyranny of the Engraver* appearing in the September issue of THE JOURNAL, has been read with care. The conclusion reached has been that the author did not give sufficient consideration to some aspects of the subject, which if duly regarded, would have had a restraining influence of a very marked character. The assertions made are of such a positive as well as radical nature that they must be taken as intending all they convey, and to attempt to do so is to reach the conclusion that they were arrived at too hastily and without looking at the subject from every point of view.

There is only one thing, however, to which the writer wishes to call attention in this communication, and this is that the article appears to be inconsistent with itself. At one place the author contends that an investment should be listed by the investor at what he actually lends—in the instance mentioned, $190,000.00—and he suggests the charging up periodically of the interest into the investment account. Elsewhere it is maintained that the liability assumed includes interest as well as principal and should be recorded so. But in a later section of the article it is contended that the entries upon the debtors' and creditors' books should correspond.

Granting that interest is a "constant force, somewhat analogous to gravitation," the charging up of this interest periodically by the investor is inconsistent with the assertion that the coupons are a liability when the bonds are issued. On the other hand, to register them as a liability would involve a disagreement between the accounts of debtor and creditor, for the investor certainly has not lent the interest.

Yours faithfully,

Los Angeles, California. WALTER C. WRIGHT.

"Jobs"

Editor, The Journal of Accountancy:

Sir: There have been many articles written and published in the past regarding the "profession" of accountancy; its "professional ethics"; and, in fact, many arguments have been submitted to prove its right to be included in the list with other learned "professions." I have also noticed in many published articles that have been written by certified public accountants that accounting services of different kinds have been referred to as "jobs."

All of this has reminded me of a remark that I once heard made by a dentist to one of his students who had referred to certain dental operations as "jobs." The dentist in reply rather forcibly reminded his student that dentistry was a profession; that a man whom he pointed out through the window, wielding a pick and shovel, had a "job"; but that if he (the student) ever expected to be classed as a professional man he would have to view the services rendered in the practice of dentistry as being something that required higher qualifications with more intelligence and learning than that needed for "job" work.

In the writer's opinion it is the job work of many self-styled accountants that is responsible for the lack of appreciation by the average business man of accountancy as a profession; and the term in question might not be unworthy of the attention of the American Association's committee on terminology.

Yours truly,

Indianapolis, Indiana. C. E. FREEMAN, C. P. A.