

7-1916

Correspondence

Enos Spencer

William H. Goldberg

John A. Will

G. L. White

John E. O. Feller

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Spencer, Enos; Goldberg, William H.; Will, John A.; White, G. L.; and Feller, John E. O. (1916)

"Correspondence," *Journal of Accountancy*: Vol. 22: Iss. 1, Article 11.

Available at: <https://egrove.olemiss.edu/jofa/vol22/iss1/11>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Correspondence

Form of Financial Statement

Editor, The Journal of Accountancy:

SIR: The statement published on page 217 of the March issue of THE JOURNAL OF ACCOUNTANCY was a statement of facts concerning a business presented to a general gathering of business and professional men, and not a technical statement of assets and liabilities. I believe the statement as such is valuable to any business and will give bankers or others information they may desire.

There is quite a difference of opinion as to the term "working capital." Money is invested in a business (invested capital), and when the invested capital is not adequate to operate the business on a cash basis (which is generally the case) credit is secured (borrowed capital) to add to the funds with which to operate the business. Part of this invested and borrowed capital is expended in equipping the business with machinery and appliances to carry it on (fixed investments) and the remainder is used in operating the activities of the business (the working capital). True, the capital of a business (invested) is the excess of the assets over the liabilities, but the capital *employed in a business* is the "invested" plus the "borrowed" capital.

Mr. Greeley on page 276 of the April number of THE JOURNAL assumes that if \$25,000.00 new machinery were "bought on credit" the working capital would be reduced. In fact, according to his contention, his working capital, \$15,000.00, would be wiped out and the business run on a deficit of \$10,000.00. I contend that the purchase of any amount of fixed investments, either on credit or for new capital stock issued, would not change the amount of funds employed in operating the business (working capital). Mr. Greeley's example would show a bad condition, viz. that of a business having placed \$10,000.00 (of borrowed capital) over all its invested capital in fixed investments and operating the business entirely on borrowed funds.

I hold that the statement of the excess of the current assets over the current liabilities is of little value, whereas the difference between the invested capital and the fixed investments is of great value as it shows the invested capital available for carrying on the business which, plus the borrowed funds (current liabilities), gives the total amount of funds employed in operating, or the working capital.

As far as Mr. Freeman's statements are concerned there is no vital difference between us. My statement is non-technical, whereas he insists upon holding to technical forms and terms. He is in error in saying on page 278, April number of JOURNAL, that I claimed the \$55,000.00, B2, as working capital. The statement shows clearly that \$15,000.00 of the \$55,000.00 was the amount of invested capital that was left, after purchasing the fixed investments, to go into the working capital. He leaves this B2 out of his statement. These are valuable facts as they show the sources from which were derived the funds for carrying on the activities of the business. I agree with him as to the important considerations that should govern the construction of a statement, viz. (a) simplicity, (b) lack of duplication, (c) the use of terms that most clearly and definitely

Correspondence

describe the items to which they refer. However, duplication is always advisable when it adds simplicity and makes clear.

Yours truly,

Louisville, Kentucky.

ENOS SPENCER.

Editor, The Journal of Accountancy:

SIR: In the March issue of THE JOURNAL OF ACCOUNTANCY appears the analysis of a financial statement. To this analysis two adverse criticisms have been offered in the April issue of THE JOURNAL. As it is indicated in both issues that further discussion would be welcomed, I take pleasure in offering this as my opinion.

It seems to me that the criticism offered by Mr. C. E. Freeman does no justice to Mr. Enos Spencer. Personally, the writer can see very little difference between the two analyses, only that the analysis offered by Mr. Spencer is somewhat more replete than that of Mr. Freeman and that the former does lack simplicity to a certain extent. However, the facts and information contained in one are the same as in the other, excepting the use of somewhat different terms, which variation seems to be of little significance. In fact, taking Mr. Freeman on his own statement, namely: "The form referred to is evidently intended to answer two general questions of fact: (A) How much capital are you employing in your business? And (B) How is your capital being used and what is its existing condition?" the analysis offered by Mr. Spencer seems to me to answer these questions more fully than the analysis offered by Mr. Freeman, since the former refers to "capital" throughout his analysis while the latter refers to "assets and liabilities." I do not deny, however, that some superfluity is introduced in Mr. Spencer's analysis, but the idea is there, and a good one it is, nevertheless.

Mr. Freeman says further, regarding Mr. Spencer's analysis; "The \$55,000.00 in section B2 is designated as working capital, etc., while B3 indicates that there is only \$45,000.00 of working capital that is active. In one or the other of these cases the term must be wrongly applied." Well, as a matter of fact, Mr. Spencer in section B2 does not designate the \$55,000.00 as working capital; he simply shows that, of the \$45,000.00 to which he refers as working capital, \$15,000.00 is derived from invested and accrued capital, and in order to make it clear, he further shows that the amount \$15,000.00 is arrived at by subtracting \$40,000.00 from \$55,000.00 which is nothing more nor less than repleteness.

Referring to Mr. Harold Dudley Greeley's criticism, heretofore if anyone had propounded the question to me, "What is working capital?" I surely would have answered, as Mr. Greeley, "The excess of current assets over current liabilities." But at the same time, looking at the question and answer from different angles, one might be inclined to think otherwise. For instance, in the statement, "If the operation of the business means purchasing new material and the payment of new expenses, etc., etc." Mr. Greeley appears to be trying to show that the payment of current notes and accounts payable is not to be included in the operation of the business. It is safe to state, at least as far as I am concerned, that the payment of current liabilities is an indirect, if not a direct, element comprised in the operation of the business. If a firm were to cease to meet these obligations, it is quite evident that it would soon be compelled to cease all other operations of the business. On the other hand, if the operation of the business means the purchase of new material and the payment of new expenses only, then in the particular case of the Blank Co., at February 10, 1916, the working capital could not be construed to be more than the \$2,100.00 in cash (in bank and on hand) and, in cases where the notes receivable would

be acceptable to creditors as payment for such purchases, the \$2,000.00 of notes would also be included as working capital; but in no circumstances could it be said that the working capital is \$15,000.00 as Mr. Greeley states. What firm purchases new material for or pays expenses with inventory of finished goods, raw materials or goods in process? It might be claimed by some that the accounts receivable may be assigned as payment for new materials or new expenses, and, in that case, would be called working capital; but assignment of accounts is not good practice and unusual, and therefore such claim should be given little weight.

I do not wish to be considered as defining working capital as current assets; but, nevertheless, I think that the theory deserves consideration, and, therefore, I should like to see a more diversified discussion of it in THE JOURNAL OF ACCOUNTANCY.

Yours truly,
WILLIAM H. GOLDBERG.

Compulsory Apprenticeship

Editor, The Journal of Accountancy:

SIR: Undoubtedly all will agree that compulsory apprenticeship is needed in the various trades, due to the fact that those persons entering them have not had a technical education and therefore during their apprenticeship receive the necessary training in reference to the business which they intend to pursue. If we desire our profession (?) to be a profession, and we all agree that it should be one, we must eliminate the obnoxious compulsory apprenticeship.

It is conceded that the medical profession is the most important profession because it deals with life, where our profession only deals with the pocketbook; if we have not life we cannot have pocketbooks. The medical profession has grown, and those in it who are worthy have also grown without the necessary obnoxious compulsory apprenticeship laid down by the founders of the certified public accounting profession; undoubtedly this apprenticeship was injected into the laws due to the fact that we incorporated within our laws the requirements of foreign countries. This part of the law is absolutely unreasonable and has a tendency of smothering ambition and creating a trust which is objectionable to free thinking men; therefore it is my belief and opinion that if the certified public accounting profession is to become that which we wish it to become, we must eliminate compulsory apprenticeship.

If this unjust law is corrected, a young man who has secured the fundamental education and passed the C.P.A. examination can open an office and start to practise, and if he be of the right material he will not undertake to do any work that he feels he is incapable of handling without consulting a certified public accountant with years of practical experience. If he is not of the right material he will not succeed, regardless of apprenticeship or education.

I do not think it wise to reduce the educational requirements or the standard of examinations of the present day, but I do believe and agree with the president of a New York bank, who has said, at least to the best of my memory, that the certified public accountants are creating a trust that is second to none in the United States.

For further proof that this compulsory apprenticeship is unnecessary I take the liberty of stating that at least fifty per cent. of the practising certified public accountants have neither served as apprentices nor have they passed the required state C.P.A. examinations.

Yours very truly,
JOHN A. WILL, C.P.A.

St. Louis, Missouri.

Correspondence

"Recruits Wanted"

Editor, *The Journal of Accountancy*:

SIR: I have read your editorial *Recruits Wanted*, appearing in the February issue of the JOURNAL, and am much interested in the general discussion which has followed. It seems to me that young men who have completed their professional training in accountancy and seek to secure employment as an essential for the degree expect altogether too much in the way of remuneration. The accounting profession in my estimation is rapidly approaching the same public viewpoint as the legal profession, and I think junior accountants should be willing to make the same sacrifices in order to secure the practical experience and knowledge that the young lawyer has to make when he graduates. I have been a student of accountancy and have done considerable work along that line, but if my desire were to make it my life work I should feel willing to offer my services to a firm of accountants gratuitously for at least a few months: at the end of such time I might be worth a slight remuneration. This is being done every day in the legal profession—and oft-times greater sacrifices—and more time has been spent in preparation than is the case with students of accounting. We must also consider the laws of demand and supply. A young man who has been with a concern several years knows the business thoroughly and may be drawing \$40 per week. He completes a course in accountancy, passes his examination, endeavors to secure employment prior to receiving his certificate and is dismayed at the lack of demand for his services. He does not realize that with his firm no one could step in and immediately fill his place, consequently he was valuable; but, when it comes to organized business knowledge in general he is in his infancy. There are hundreds who know just as much or just as little, and he must meet competition. I am sure I have not mentioned anything new, but it may be "food for thought," and it is often the little things we overlook.

Respectfully yours,

G. L. WHITE.

651 First Street, Braddock, Pennsylvania.

Editor, *The Journal of Accountancy*:

SIR: I have read with considerable interest the correspondence in THE JOURNAL on the subject *Recruits Wanted*. I can't help recalling a story in one of McGuffey's *Readers* entitled "Where there's a will, there's a way." The young accountants who deplore an apparent condition in the public accounting field which renders it undesirable to them do not seem to have very much backbone. With your permission I will relate a few of my experiences in this field. In 1904 I was graduated from our local high school where I received my elementary knowledge of bookkeeping. My first position paid me \$4.00 per week. In 1908 I began the study of an extension course in higher accounting which I pursued diligently and in 1912 secured employment as a junior accountant on the staff of a large firm of accountants of national fame. In the latter part of 1912 I returned to Canton, my home, and began in a small way the practice of public accounting. The first few months did not go very well but in the fall of 1913 I secured quite a lot of engagements which made my first year's income greater than my salary as a junior. My second year was twice as big as my first; the third year equalled the first two. I

now have a staff of my own to take care of my numerous clients. I do not believe that any young man with an accounting education and a good, stiff backbone need say that the accounting profession does not treat him fairly. Even though a firm of accountants does not offer a handsome salary to an inexperienced accountant, he is bound to be appreciated if he does his work diligently and faithfully. You cannot keep a good man down. The man who desires success, but who is not willing to pay the price, has no place in the accounting profession.

Respectfully yours,

JOHN E. O. FELLER.

Renkert Building, Canton, Ohio.

New York Society Suspends Member

At a meeting of the board of directors of the New York State Society of Certified Public Accountants held May 8, 1916, the following resolution was adopted:

Whereas, it is the sense of the board of directors of the New York State Society of Certified Public Accountants that the preponderance of evidence introduced at the hearing held to consider the charges of unprofessional conduct made against Mr. Perley Morse, a member of this society, shows that Mr. Perley Morse made a promise not to remove any papers from the office of the T. A. Gillespie Company without the knowledge or consent of the said T. A. Gillespie Company, and

Whereas, the preponderance of evidence further shows that Mr. Perley Morse did remove from the office of the T. A. Gillespie Company certain papers without the knowledge or consent of the T. A. Gillespie Company, and

Whereas, the preponderance of evidence shows that the promise made by Mr. Perley Morse applied to the papers in question, and

Whereas, it is the sense of the board of directors of the New York State Society of Certified Public Accountants that the breaking of this promise by Mr. Perley Morse constituted a breach of professional ethics, now therefore be it

Resolved, that a vote of censure be passed on Mr. Perley Morse, and that he be and hereby is suspended from the privileges of membership in the New York State Society of Certified Public Accountants from the date of this meeting, May 8, 1916, until September 15, 1916.