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Correspondence

J. G. Steele

J. S. Seidman

John N. Aitken Jr.

Charles Lipkin

R. I. Mehan

CORRESPONDENCE

"Nonexpanding Economy and Profit Sharing"

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: Mr. Fick's article entitled "Nonexpanding Economy and Profit Sharing," in the July JOURNAL, gave one food for thought and was well presented.

However, there seem to be a number of details which may be questioned and which might be held to make his conclusions untenable. This view can be taken even without challenging his original and debatable thesis that our economy has ceased to expand and will not expand in the future.

Most authorities agree that a general leveling of the skewed income curve would raise the lower incomes comparatively little. Many people feel that this effect would be more than offset by the removal of incentive and the drying up of future pools of capital investment which such a step would entail.

Secondly, Mr. Fick ignores all question of reward for the assumption of risk. His thesis seems to be that it is logical for capital to share the gains but to bear the losses alone. Also, he makes no differentiation between the capital invested in speculative enterprises and that invested in comparatively stable undertakings; both would receive the same rate of return as labor.

Thirdly, Mr. Fick disregards those industries in which noncapitalized intangibles are the major assets of the successful companies. Along similar lines, a company with small capital but successful because of superior management would be unduly penalized.

Finally, as accountants, it must be hard for most readers to agree with Mr. Fick's contention that depreciation should not be treated as a cost. Carrying such an idea over to fields where the ratio of depreciable capital investment to gross income is large would result in the anomalous situation of labor sharing in profits at the same time that the investor was suffering losses.

I believe that most of us would agree with the general idea of giving labor a share of the profits but would hold that Mr. Fick's solution suffers for the lack of a logically defensible basis.

Yours truly,

J. G. STEELE

New York, N. Y.

Depreciation on Appreciation

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: Research bulletin No. 5 has to do with depreciation on appreciation. The committee on accounting procedure declares that when depreciation is recorded on the books, the income account is to be charged for depreciation on the appreciated figure. This conclusion, however, is hemmed in by all sorts of supplemental considerations and countervailing factors, so that there is no indication now of any definite course. Instead, the prevailing practices are paraded so that it becomes abundantly clear how equivocal and confusing things are in their present state.

Presumably, the committee intends to attempt at some later date the calming of the waters. My own feeling, along the path charted by dissenting member Couchman, is that the safest and most understandable haven is the return to cost. I think that in wandering from cost, accountants have not only uprooted the one firm and common foundation for all financial statements, but have also opened the door to vagaries and confusions in treatment well illustrated by the different practices referred to in this research bulletin. Particularly as applied to depreciation, all sorts of misconceptions, not only of an accounting nature, but also of general economics, have been opened up. (The recent article by Stuart Chase is a shining example of the economic.)

So far as I am concerned, depreciation is no different from an expense prepayment. In the last analysis, it is closest to a rent prepayment for the use of land and equipment. The amortization of that prepayment over the applicable period is the essential income charge. Write-ups or write-downs have no more bearing in the income statement than they do because of the fact that material, labor, or overhead may have been acquired, in advance, at prices or rates varying from those obtaining at the time of consumption. That there have been value variations may appropriately be set forth as a matter of information to the reader of financial statements and for such disposition of that information as he may care to make.

Also, management can ignore part of the depreciation charge, just as it may ignore part of any other cost in establishing competitive prices, but when the financial statements, at least in the capital-asset section, depart from historical costs, they begin to lose their moorings and any sort of foundering is possible.

The foregoing is not intended to preclude the occasion for recognizing or entering appraisal values. Special situations may arise where recourse to such values in the accounts is desirable, if not necessary. However, when special situations arise admitting of appraised values as an integral part of the accounts, the admission gate should be that of quasi-reorganization which, in the last analysis, is merely a new cost and therefore in harmony with the underlying pervasive principle of cost.

Yours truly,

J. S. Seidman

New York, N. Y.

"Findings and Opinions"

Editor, The Journal of Accountancy:

Dear Sir: It is my understanding that beginning with this year The Journal has instituted a policy of publishing excerpts or summaries of certain Securities and Exchange Commission releases wherein accounting questions have arisen. In some of the specific cases so noted by The Journal, the deficiencies which the Securities and Exchange Commission determined to exist were cured by amendments, whereas others resulted in stop orders being issued.

It is observed that the points raised in these discussions are controversial, and many have an important bearing on fundamental accounting principles and the presentation of accounting matters in adequate form.

It is to be hoped that The Journal will continue this publicity and will encourage the presentation of both sides of the debatable points, particularly that of the certifying accountant. Accounting is an involved subject, and accountants who engage in the practice of certifying to registration statements should expect these debatable questions to arise and should not shrink from resulting publicity. Criticism should be made only when all of the facts are known, and the mere fact that a debatable question has arisen should not in any way be considered an indictment against the integrity or professional honor of the certifying accountant.

The more publicity can be given to these questions the better the members of the profession will understand each other and will understand their subject.

Yours truly,

John N. Aitken, Jr.

Philadelphia, Pa.

General Tax Formula

Editor, The Journal of Accountancy:

Dear Sir: Mr. Edward Fraser's algebraic formula for determination of federal income tax, state income tax, and bonus, each computed after deduction of the other two (The Journal of Accountancy, May, 1940) is interesting, logical, and productive of the desired results.

Being possibly allergic to algebra in quantities, the disconcerting tendency such questions have to arise outside the office and where formulae are not available has led to personal preference for solving similar problems by the arithmetical process of attrition —with the advantages of simplicity, no formula to remember, and perhaps more rapid solution.

To illustrate: Assuming a profit of $100,000 before determination of the unknowns, and using only data suggested by Mr. Fraser: federal rate 15 per cent, state rate 2 per cent, bonus rate 10 per cent, complete solution by attrition (progressively increasing and reducing the amounts of the three unknowns by their respective percentages of the amounts whereby the two other unknowns previously had been increased or reduced) would be:

Unknowns	Bonus	State tax	Federal tax
Percentage of profit	10%	2%	15%
Percentage of $100,000	$10,000.00	$2,000.00	$15,000.00
Percentage of previous items	1,700.00	500.00	1,800.00
	$8,300.00	$1,500.00	$13,200.00
" " " "	230.00	70.00	330.00
	$8,530.00	$1,570.00	$13,530.00
" " " "	40.00	11.20	45.00
	$8,490.00	$1,558.80	$13,485.00
" " " "	5.62	1.70	7.68
	$8,495.62	$1,560.50	$13,492.68
" " " "	.94	.26	1.10
	$8,494.68	$1,560.24	$13,491.58
" " " "	.14	.04	.18
	$8,494.82	$1,560.28	$13,491.76
" " " "	.02	.01	.02
Unknowns—now known	$8,494.80	$1,560.27	$13,491.74

Yours truly,

R. I. MEHAN

Galveston, Texas

Mental Multiplication

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: I refer to circular issued by State of New York, Department of Labor, division of placement and unemployment insurance, outlining "change in rate of contributions" as follows:

"By amendment to section 516 of the New York unemployment-insurance law, the rate of contributions payable by all employers with respect to wages paid on or after January 1, 1940, to employees for employment subject to the law has been reduced from 3 per cent to 2.7 per cent. Consequently, in filing returns on form Labor UI-TW5 (Employer's Report of Contributions) covering wages paid in the first calendar quarter of 1940, the figure '3 per cent' shown in item 6 on the face thereof should be disregarded and the figure '2.7 per cent' substituted therefor."

I believe it is not generally understood by most mathematicians that it is possible to multiply by 27 (ignoring the decimal point for the moment in 2.7 per cent) just as one would multiply by 9 or 12; that is, 27 may be considered as a unit, as if it were only one digit or integer. Let us see:

Required to multiply 291736 × 27 . . . . 291736 × 27

Merely say:

6 × 27 = 162, carry 16	2
3 × 27 + 16 = 97, carry 9 . .	7
7 × 27 + 9 = 198, carry 19.	8
1 × 27 + 19 = 46, carry 4 . .	6
9 × 27 + 4 = 247, carry 24.	7
2 × 27 + 24 = 78, set down	78
Product	7876872

Why multiply mentally? Why not use machines exclusively? Because, you see, 75 per cent of all calculation, I venture to guess, is still done with pencil and paper. We have in our own accounting office the latest in computing machines, we are a very good customer for machines, and yet I state unequivocally that the ability to figure fast without needing to resort invariably to the machine, is a prime requisite for any tax man.

The writer has been in practice for 29 years, and I know whereof I speak as to the need for tax men to be able to give answers to queries of amount of tax at certain rates—just like that!

Naturally, the tax man can prove his work on the machine, or he may first compute by machine and compute mentally as shown above, to prove. Another method of proof would be to multiply the taxable amount by

3 and then to deduct 1/10th of that since 3 minus .3 equals 2.7.

Let us try that:

	291736
	× 27
3 × 291736 = ...	875208.0
Deduct 1/10th of 875208, or	87520.8
Product............	787687.2

In the first example, where we multiplied directly by 27 as a unit, we must point off three decimal places, because 2.7 per cent is the same as .027. In the second example, where we multiplied by 3 minus .3, we must point off only two additional decimal places, since the .3 item is shown already pointed off in the product and we need point off only the two places represented by 3 per cent (same as .03).

I believe readers of THE JOURNAL OF ACCOUNTANCY would be interested in having this subject brought to their attention via this letter.

Yours truly,

CHARLES LIPKIN

New York, N. Y.