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Born, a natural year

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tain. In a soap factory the accountant might make test-openings of boxes supposed to contain soap ready for shipment to see that such boxes actually are filled with soap.

The question of obsolescence is said by some to present an insurmountable difficulty to the auditor in verifying inventories. Yet, many cases might be cited where accountants have discovered that inventories were inflated because of unsalable stock being included. It does not seem unreasonable to believe that any difficulty which might exist would become less with each repetition of the inventory work for a certain type of business and as the auditor becomes more familiar with conditions within that industry. In this connection, the use of running inventory records, and aging of the stock will indicate what items should be most carefully investigated for unsalability. If the inventory records show 25,000 units of a particular article on hand, and only 1,000 units have been sold in the past year, it is evident that much of that stock probably will be unsalable. Also, in many cases, such as in the men's and women's clothing business, the goods are marked to indicate the season in which they were purchased, so that it is possible to determine, without much difficulty, whether or not a large supply of old stock is being carried. In all cases where an accountant does not feel capable of judging an inventory correctly, he can, and should, supplement his work by obtaining the advice of engineers or experts familiar with that particular business.

Of course, it is manifestly impossible for accountants to assume unqualified responsibility for inventories of certain businesses, such as jewelry stores, where a highly technical knowledge is required to be able to measure and value the inventory intelligently. In such cases auditors must continue to rely on the qualified certification of inventories. However, when allowed to make proper verifications, there is no reason why accountants should not accept the responsibility for inventories in the many cases in which they are qualified to assume such responsibility.

Bankers can make it possible for the accountant to submit an unqualified certificate by urging upon their borrowers the necessity of a general audit, including unrestricted verification of inventories. Only when such an audit is made, is the accountant in a position to give an unqualified certificate. If given the opportunity to make the necessary verifications, an ever-increasing number of the leading accountants today will be more than willing to express a reliable opinion on inventories as well as the other balance sheet items, because they realize that, in most cases, they are qualified to render such service, and because they believe that such action would be a great forward step in rendering service to their clients and to the public.

Born; A Natural Business Year

IN observing the recent action of the Associated Fur Manufacturers, Inc., of New York, one may be pardoned, perhaps, for taking pleasure and pride in repeating to oneself, "The vision of our forefathers has been justified."

Many years ago, when Mr. Sells advanced the idea of the natural business year, concurrence in the principle was not in any sense lacking, but the difficulty of obtaining the coöperation of industry in putting the principle into practice was manifest. The interest in the idea seemed for the moment to be a selfish one on the part of accountants who, from the time accountancy practice developed in this country, have had to struggle with the backbreaking burden imposed by the closing of accounts at the end of the calendar year.

Unremitting agitation and representation on the part of accountants have had the effect here and there, in cases highly isolated, of influencing certain corporations to change their fiscal years so that the accounts would be closed at some date other than December 31. The books and articles on the subject which have been written perhaps have made some impression, but, generally speaking, progress in the direction of a substantial change has been exceedingly slow if, in fact, any real progress has been made.

Now, however (October, 1927), comes the Associated Fur Manufacturers, Inc., of New York, and voluntarily votes to change its fiscal year so that the year will end in March instead of December. This plan is stated to be in accordance with a resolution adopted by the National Association of the Fur Industry at a convention previously held in Chicago. The principal point of interest in the change is the fact that this industry reached its conclusion of its own free will, on the basis of sound logic resulting from introspection and the application of common business sense.

It appears there had grown up in the industry a practice of marking down prices and giving unreasonable discounts in order to raise cash with which to meet obligations maturing at the end of the calendar year, although this action was taken at the height of the fur-selling season. Looking into the matter carefully, the fur people realized that it would be more economical to carry through to the end of the fur-selling season and stand the expense of the borrowed capital necessary, than to suffer the losses attendant upon the slashing of prices. The conclusion seems so sensible and so simple that it is difficult to understand why the thought had not occurred to some one in the fur industry long before October, 1927.

This voluntary action on the part of the fur industry promises much for the future. Once an industry awakens to the realization that it has something to gain by changing its fiscal year, and that such action is not merely an accommodation to public accountants, the motive for changing is much more impelling than any agitation or force which can be applied from without.

The hope for the future lies in the fact that the change has been inaugurated by industry itself. With this splendid beginning, it is not unlikely that other classes of industry will see the advantages to be gained by changing and that others will follow suit.

Dividends and Depletion of Wasting Assets

WASTING assets have been defined as "material assets, such as mines, which diminish in value by reason of and commensurately with the removal of their product, or immaterial assets, such as patents, which theoretically diminish in value by reason of and commensurately with effluxion of time." That is, they are assets which must be consumed or depleted in the course of business in order to produce revenue. Although accountants may not be in entire agreement as to whether depreciation is an element of cost, they are generally in accord in regarding depletion as a part of cost. It is difficult to conceive how depletion can be regarded as anything else than a part of the cost of goods sold, just as are royalties and raw materials consumed.

Notwithstanding the fact that depletion is generally regarded as an element of cost, certain state legislatures hold that it is unnecessary to provide for depletion before declaring dividends. Some states which have enacted laws prohibiting the payment of dividends without providing for depreciation, have made exceptions in the case of corporations operating wasting