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Guides and Compasses

BUSINESS enterprise, if subjected, figuratively speaking, to microscopic examination, would be found to consist of a multitude of transactions, the characteristics of which often are forgotten in the complexities of operations, business accomplishments, expediency, and policy-making.

The characteristics of a profitable transaction, taking place in a money-economy, are these: an enforceable right on the part of "A" to receive from "B" an amount of money in excess of cost; the establishment of a profit.

Whether the enforceable right to receive, the cost, and the profit relate to one transaction or to a million; to a simple article of goods, or to properties or securities of vast proportions and complexities; to services, privileges, use of property, use of funds or what not, the fundamental principles do not change.

Simple and elementary as these principles are, they assume great importance and inestimable value in settling accounting questions of involvement and moment which arise in the practice of accountancy.

Application of the principles guide one quickly and surely to the conclusion, for example, that a corporation whose business is that of investing in securities may not

declare dividends out of appreciation attributed to an increase in market values.

Likewise, one is helped to a ready decision where an industrial has a mixed surplus resulting from revaluation of investments in affiliated companies, from appreciation of plant property, from an increase in the valuation of intangibles, and from operations.

Again, the principles act as a compass when there arises a question as to whether a reserve for dividends payable may be created out of surplus arising from appreciation, or capital surplus, as it is called too frequently.

Comforting though it is to have court decisions which support the view that dividends may not be declared out of capital, or out of capital surplus, or out of hope and expectancy, such decisions are not always readily available to the accountant for reference.

Accountants who are faced with problems such as those cited, need no legal references for the moment when they see in their mind's eye fundamental principles steadfastly marching on through the smoke thrown off by modern business enterprise as it grinds and mills about.

There are no guides and compasses more reliable than fundamental principles.