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## Alien property specifications; Alien Property Custodian Bureau of Audits

Homer A. Dunn

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In the present instance there is a deficit from operations instead of a surplus. The effect upon the common stock equity is shown below:

Capital—		
(Required by charter \$150,000).		
Preferred stock:		
Authorized—1,000		
shares p a r		
v a l u e \$100		
each . . . . .	\$100,000	
Unissued . . . . .	50,000	
Issued and outstanding . .	\$50,000	
Common stock: (No par		
value)		
1,000 shares is-		
sued and out-		
standing—book		
value at time of		
issue . . . . .	\$75,000	
Less loss from op-		
erations . . . . .	8,500	66,500
		<hr/>
Total capital.	\$116,500	<hr/>

This treatment is preferable to that which is sometimes given the subject, wherein the excess of assets over liabilities and preferred stock at time of organization is credited to surplus showing the common stock in shares without book value. The danger in such treatment is that if the first balance sheet is unaccompanied by the income statement, the impression may be received by the person reading the balance sheet that the surplus has been earned. Any balance sheet subsequent to the first one would give the same impression. This impression is avoided where the matter is handled as above.

**Alien Property Specifications**

**W**E are indebted to Mr. Dunn for the following specifications issued to public accountants with a view of unifying the form and arrangement of exhibits which

constitute a part of their reports to the Alien Property Custodian. It requires only slight thought to make one realize the value which guidance of this kind will have in influencing the work and reports of public accountants in general, and in promoting uniformity in the matter or terminology.

**ALIEN PROPERTY CUSTODIAN  
BUREAU OF AUDITS**

**S**PECIFICATIONS or general facts and true conditions and results to be determined and disclosed in reports by public accountants from their examinations into the books of account, records, and affairs of properties coming into the custody or under the control of the Alien Property Custodian by reason of enemy ownership therein and the operation of the Trading With the Enemy Act and the President's proclamations and executive orders thereunder.

1. The financial condition at the closing date of the examination and at the close of the fiscal year which ended next prior to February 3, 1917. Such Balance Sheet exhibit should be in columnar form in the date order stated, but extended so as to show the increases and decreases in items, and it should be arranged so as to make the liquid position readily determinable.
  - (a) Accounts against trade debtors and in favor of trade creditors located in the United States, in neutral countries, and in war associated countries outside of enemy occupied territory should appear as separate items of Liquid Assets and Current Liabilities; as also accounts against or in favor of directors, officers, and employees of the corporation.
  - (b) Accounts against enemy debtors, if any, should not be included in Liquid Assets, but should be given position as a principal item, and at the closing date a reserve of

- equal amount should be deducted and extension made at nil.
- (c) Merchandise accounts should be included under Liquid Assets, and it should be indicated whether the values as stated are taken from inventories or whether approximated, and if the latter the text of the report should contain a statement of the manner in which the approximation was made from the past experience of the company in the ratio of the cost of goods sold to the net proceeds of sales. If the merchandise values are taken from inventories as of the closing date, the text of the report should set forth the responsibility for such inventories. Audit of the mathematical factors in inventories is not desired unless there has been supervision over the quantitative factor and verification of the price factor at cost or at market price, according to which is the lesser, and with due regard for conservative pricing of stale, damaged, or obsolete materials or goods.
  - (d) Investments in marketable securities should be included in Liquid Assets, should be valued accordingly, and should be sustained by detail schedules as at both dates.
  - (e) Subscriptions for United States Government bonds should be included for the full amount thereof, and unpaid instalments on such subscriptions should be included as such in Current Liabilities.
  - (f) Unless there be found good reason to the contrary, under such practices as are approved by Federal and State Commissions, Deferred Assets should be limited to expenditures which are applicable to future operations, and the character and amount of each should be disclosed in sub-items.
  - (g) Property should be separated as between that owned in fee and that which is located on leaseholds, both kinds should be sustained by comparative schedules, and reserves for depreciation of the former and for amortization of the latter should be deducted instead of setting them into the liability side of the Balance Sheet.
  - (h) Accounts owing to enemy creditors should be a separate item of Current Liabilities, because subject to demand by the Alien Property Custodian.
  - (i) Current Liabilities should include determinations of incurred Federal, State, and Municipal taxes and of like accrued taxes.
  - (j) Accounts with enemies and with directors, officers and employees should be sustained by fully explanatory schedules covering only the Balance Sheet period, and separate accounts with any of these should be consolidated into one account, in which actual dates of transactions should be substituted for dates of book entries when differing.
  - (k) In the report text particulars should be set forth of any unusual or extraordinary transactions other than those disclosed by schedules which may have affected the increases or decreases in Balance Sheet items.
  - (l) Accounts Receivable which may have been improperly written off should be restored to their proper status in the Balance Sheet and a reserve should be included therein for probable loss in the realization of such accounts according to the best judgment exercisable.
  - (m) The report should contain full particulars and description of property (cash, Government bonds, or otherwise), which may have been

- delivered out of the Assets of the business to the Alien Property Custodian or on his order.
2. Operating and income results for the full period of the examination, subdivided according to the fiscal years of the corporation. The exhibit of this information should be in the logical sequence of items according to conditions and with special regard for matters of interest or concern to the Alien Property Custodian or to any other department of the government, and, in its columnar order, it should run from the latest fiscal year, or part year, on the left, to the earliest fiscal year, or part year, on the right. Such charges as depreciation, losses, and taxes (State, Municipal, and Federal), should be made to stand out as separate items, and should be placed in the fiscal year, or part year, to which appertaining as distinguished from the period in which payment may have been made or entries placed on the books of account. Losses arising from uncollectibility of accounts against enemies to be treated as such in the fiscal year in which falls the date of Nov. 10, 1917, which is the date of the Decree of the Imperial German Government ordering the report of all property owned by citizens of the United States.
  3. Journal entries necessary to conform the books of account to the true conditions as at the closing date, but these should not include entries for the closing of administrative and income accounts into Profit and Loss or Surplus account.
  4. Salaries, commissions, bonuses, or profit participations, which have been allowed and paid or credited to officers or employees holding important positions in the business, for the full period of the examination. The exhibit of this information should be drawn up so as to set forth clearly the respective classes of compensations or profit participations to each person, and this information should be made to coördinate with the exhibit of the operating and income results, meaning that both should be arranged so as to coördinate each with the other. Verified copies of contracts or of minutes of directors' meetings in relation to these matters should be included in your report.
  5. Verified copies of contracts to which the corporation may be committed and under which it may have obligations to meet in the period subsequent to the closing date, which on that date had not taken the form of liabilities.
  6. Enemy property which you may be able to discover from the records or in the custody, under the control, or within the knowledge of any person related to the corporation, other than property in the form of debts owing to enemy creditors or enemy owned shares in the corporation.
  7. Particulars as to the holdings of the two classes of capital stock as at the closing date, subdivided as between holdings by or for account of the Alien Property Custodian and holdings by or for account of non-enemies.
- There should be kept in mind in connection with such examination and report the fact that the final objective of the Alien Property Custodian is to sell the business property of enemies at public sale, and the desire to have a report that will be illuminating to prospective purchasers or from which condensed statements can be made for certification and publication without recourse to further examination.

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#### Book Reviews

Denham, R. S. *Fundamentals of Cost and Profit Calculation*. (Cleveland, Cost Engineering Publishing Company, 1918. 118 p.)

This book is addressed by the author to the business man. It is described as a vigorous discussion of the vital elements of business. It begins with a discussion of the philosophy of cost and profit, and con-