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Client's needs

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The Client's Needs

AN article, entitled "Accounting Data as a Basis for Administrative Judgment," which appeared in the October, 1920, number of the *Bulletin*, pointed out the advantage to clients of reports containing to a reasonable extent statistical and interpretative data. In reviewing the current accounting and financial literature one sees an increasing tendency to seek out the meaning of figures and to make them useful as a basis for administration.

The average accountant has been slow to take his place as an interpreter of results. He has been restrained perhaps by his modesty and his desire not to overstep the bounds of what he regards as his proper function, namely, to prepare and present the financial facts, leaving to the person who peruses the information the task of interpretation and use.

But the fallacy of his position is becoming apparent. Frequently of late, those who have occasion to use his reports have pointed out to him their desire to have him broaden his function. They have almost put the matter up to him as a duty.

Mr. Julien H. Hill, President, National State and City Bank, Richmond, Va., has contributed a valuable bit of information on the subject in the following:

I might add that many of the banks, in their analyses of statements, frequently determine for their own purposes, ratios of (a) worth or capital to fixed assets (to determine if too much capital is invested in plant); (b) receivables to merchandise (as merchandise converted into receivables takes a profit into the statement); (c) sales to receivables, to gauge the promptness of collections; (d) sales to merchandise, to ascertain the turnover; (e) sales to worth, to show the turnover of capital; (f) profits to sales, for obvious reasons.

I mention these ratios because of the assistance they may render your client if made a part of your statement from year to year. While, of course, in using them for comparative purposes, the ratios with which they are compared are determined by us from statements of other customers in similar lines of business, which we have on our books, you can readily see that with the much broader field represented by the many examinations that you make in various lines you are able more nearly to get the barometric figures. Such figures for qualitative purposes in your reports should invariably work to great advantage to your clients.

Apropos of the banker's desire with regard to reports, Mr. Hill said further:

Close attention should be paid by you to the methods of determining the inventory figures given you (and I hope the time will come when the cost of an appraisal by experts, associated with you, will not be prohibitive). When the inventory is not made directly under your supervision, you can greatly assist us in your comments, in telling us, first, how it has been reported to you that the inventory has been taken and whether in your opinion the methods used tend to accuracy. When a partial checking (as to larger items by means of invoices, for instance) is made by you, it should be so stated in your essay. Frankly, I think you owe it to yourselves, to your client and to his bank to be explicit on this item, especially if you have any reason to suspect in any degree overvaluation or undervaluation of merchandise of whatever nature. And in these days of transportation difficulties, with goods to be paid for long before arrival, please tell us about goods in transit.

Again the tendency toward statistics as a means of measuring certain aspects of financial condition is brought out in the November, 1920, number of *The Credit Monthly*. The article is entitled, "New System for Analysis of Financial Statements" and is credited to Robert Morris Associates, Alexander Wall, Secretary. The statistics involved are as follows:

(1) The ratio of receivables to merchandise, indicating the dollars receivable for every dollar of merchandise inventory. The addition to the assets of a profit item in receivables not offset by any operating cost or borrowing necessity, tends to raise the proportion as between current assets and liabilities.

(2) Ratio of worth to fixed or non-current assets, indicating dollars of worth, or stockholders' investment tied up in plant or non-current investment. A comparison of this ratio year by year may help to check undue plant expansion that leads to unproductive capital and increased overhead in slow times.

(3) Ratio of sales to receivables, indicating the dollar of sales per year for every dollar carried on books as receivables. The higher this ratio, within reasonable bounds, the fresher and more desirable an asset become the receivables.

(4) Ratio of sales to merchandise, a test of the freshness and salability of the merchandise.

(5) Ratio of sales to worth, indicating the normal activity or turnover of investment funds.

(6) Ratio of debt, both current and funded, to worth, indicating the proportion that exists between the money loaned the company and that invested by the stockholders.

(7) Ratio of sales to fixed or non-current assets, showing the comparative earning capacity of plant investment.

In comparing these statistical specifications with those of Mr. Hill above mentioned it is interesting to note that with respect to the first five items they are identical. This indicates apparently that various minds are working along the same lines and that ultimately some concensus of opinion will be reached as to the particular statistics which will in a majority of cases be the most useful.

It is perhaps to be regretted that accountants generally have not taken the lead in matters of this kind. On the other hand it is helpful to have an indication such as is conveyed from several sources as to the needs of clients even if such need is interpreted by third parties.

A word of caution to accountants may not be out of place here. Statistics at times serve a very useful purpose. They are not always appropriate. The same kind of statistics is not indicated in every case. Circumstances should govern their use. The compilation of statistics often consumes a large amount of time. To rush in, on every occasion, and compile all known statistics is ill advised. Each situation should be studied as to its needs. The right kind and quantity of statistics should then follow.

We announce the opening of an office in Salt Lake City on November 1, 1920, and the appointment of Mr. W. M. McKendrick as manager.

Mr. J. A. Padon, manager of our Tulsa office, has accepted an invitation from the Tulsa Y. M. C. A. to conduct a course in accountancy during the coming winter.

Additions to the Library, November, 1920

Academy of Political Science. Inflation and high prices: causes and remedies; edited by Henry Rogers Seager. New York, The Academy of Political Science, Columbia University, 1920. 144 p.

American Academy of Political and Social Science. Prices. Philadelphia, American Academy of Political and Social Science, 1920. 289 p. (The Annals, v. 89.)

Annin, Robert Edwards. Ocean shipping: elements of practical steamship operation. New York, The Century Company, 1920. 427 p.

Bigwood, George. Cotton. New York, Henry Holt and Company, 1919. 206 p.

Carnegie, David, and Gladwyn, S. C. Liquid steel: its manufacture and cost. Edition 2, enlarged. New York, Longmans, Green and Company, 1918. 526 p.

Gerstenberg, Charles William. Syllabus of corporation finance. New York, Prentice-Hall, Inc. (c. 1919). 61 p.

Hager, Dorsey. Practical oil geology: the application of geology to oil field problems. Edition 3, revised and enlarged. New York, McGraw-Hill Book Company, Inc., 1919. 253 p.

Hoover, Herbert Clark. Principles of mining: valuation, organization and administration; copper, gold, lead, silver, tin and zinc. New York, McGraw-Hill Book Company, Inc., 1909. 199 p.

Larson, Carl W., and Putney, Fred S. Dairy cattle feeding and management. New York, John Wiley & Sons, Inc., 1917. 471 p.

United States. Department of Agriculture. Regulations for wool warehouses, issued July, 1920, under the United States Warehouse Act of August 11, 1916, as amended July 24, 1919. Washington, Government Printing Office, 1920. 31 p.

United States. Federal Trade Commission. Cost reports of the Federal Trade Commission: Coal, No. 4, Alabama, Tennessee, and Kentucky, bituminous. Washington, Government Printing Office, 1920. 210 p.