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Accounting Trends and Techniques — Balance Sheet

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The increasing use of the corporate ownership form of business with broadly distributed stock has made it necessary that accountants recognize their responsibility to make the financial statements as informative and uniform as possible.

A survey of the financial reports released annually by 600 industrial companies formed the basis of the article presented.

Two forms of balance sheets were reviewed, the so-called "customary" form and the "financial position" form. The "customary" form shows the assets on the left side of the balance sheet and the liabilities and stockholders' equity on the right.

The most popular form of the "financial position" form is as follows: current assets less current liabilities, added to other assets less other liabilities, less long-term indebtedness, with the net total of these sections shown as equal to the stockholders' equity. In the 1963 survey of the 600 companies, 530 of these used the "customary" form. The income statement was presented ahead of the balance sheet by 210 of the companies; this is indicative that the current earning capacity is now undergoing closer scrutiny.

The omission of the odd cents in the published financial reports is almost unanimous, only 10 of the 600 survey companies continued to use them. Fifty-three of the companies stated figures to the nearest thousand dollars.

The AICPA Committee on Accounting Procedure has emphasized the fact that the accounts for one period are but an installment of what is essentially a continuous history, and 549 of the 600 companies surveyed used comparative statements in the annual reports.

The article pointed out gaining acceptance of the recommendation that "cash or claims to cash which are restricted as to withdrawal or use for other than current operations" be excluded from the current asset section. Only nine companies used the all-inclusive title of "cash on hand and in banks."

Marketable securities were valued mainly at cost but the trend is toward supplementing this term with the phrase "stated at approximate market." Receivables appeared to be stated as in the past.

Accounting Terminology Bulletin #1 restates a recommendation previously made with reference to the use of the term "reserve." The recommendation is that the use of the term in the balance sheet to describe deductions from assets as provisions for particular liabilities should be avoided. The survey indicates that this recommendation is being followed. The use of the word "allowance" has gained broader acceptance.

There appears to be little change in the stating of inventories in the balance sheet. The most commonly used basis of valuation is still "the lower of cost or market." The method of cost determination was disclosed by 415 of the survey companies. Since 1950, there has been a decrease of over 75% in the number of companies revealing the existence of inventory reserves.

"Cash surrender value of life insurance" is, in the survey companies, almost never indicated as a current asset. Prepaid expenses and deferred charges were shown by 582 of the survey companies; and the general trend is to show them in the current asset section if they are labeled "prepaid" and under a non-current caption if they are described as "deferred."

The basis of valuation of fixed assets was disclosed by 572 of the 600 companies. The term "accumulated" rather than "reserve" in connection with depreciation accumulation has gained wider acceptance. This follows the recommendation of the AICPA Committee on Terminology. The second most popular term used to state depreciation accumulation was "allowance."

The most frequent method of presentation of intangible items was in a separate list in the non-current asset section of the balance sheet.

All of the 600 survey companies presented accounts payable to trade creditors in their balance sheets; and 345 of the companies evidenced the amount due to employers and stockholders as current liabilities.

The amount of the tax reserves in the balance sheet showed significant increases in 1963 over 1960. The latest increase in 1963 stems primarily from two sources: the adoption for tax purposes of the new depreciation guidelines and the application of investment credit accounting.

The survey noted the trend toward simplification of the capital structure of the corpora-

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have been tedious, time-consuming, and costly can now be obtained quickly and easily with modern computers. Also with computers, model programs can be set up for budget projections, letting the computers do our "guessing" in a systematic fashion.

Inventory situations are another class of decision problems which can be solved more easily with our new tools. Finally the article discusses linear or other mathematical programming and points out that, while the ideas are not new, the methods of using them are new.

The author concludes that with the kinds of tools, data processing equipment, and analytical ability at the disposal of the management accountant, he may be expected to do more than merely provide data on request. His task is to help management recognize problems and to provide information for solving them before management requests it. Accounting must highlight conditions, analyze causes, and suggest and test solutions.

The article is a brief but excellent statement of some of the opportunities facing management accountants today. If accountants are going to be a part of the management team, they must learn to use new tools to help solve some of the problems facing modern management.

M. E. B.

"A Casualty Insurance Survey for the Smaller Client," by Frank Perry Walker, CPA, *The Journal of Accountancy*, July 1965, Volume 120, Number 1

At the outset there is presented a checklist of the various types of insurable risks and of properties which may be damaged. Too often the accountant merely verifies the propriety of the more obvious forms of insurance, but with this checklist as a guide it is possible to call the client's attention to many other types of losses which should be protected. There are pertinent observations concerning the "fire legal liability" of a tenant and the necessity of proper wording in leases to eliminate the possibility of a suit from the landlord's insurance company. Special situations and the policies needed to cover them are also touched upon. Similarly, losses due to interruption of operations and liability to third parties are discussed and practical solutions are suggested.

This article emphasizes a phase of the accountant's responsibility that is often neglected, particularly in the case of the small business. Actually inadequate insurance coverage can have deleterious effects on the small business and should, therefore, receive the utmost consideration.

D. L. B.

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Others indicated inclusion of the extraordinary item in net income by such presentations as:

1. Net Income Before Special Item
   Special Item
   Net Income for Year
2. Net Operating Income
   Special Item
   Net Income

Of the companies disclosing extraordinary items, most reported only an earnings-per-share figure based on total net income and extraordinary items; most gave no figures showing separate earnings-per-share figures for net income and net income including extraordinary items.

Conclusion

The indications set forth in the American Institute of CPAs' 1964 edition of *Accounting Trends and Techniques* illustrate that among the companies surveyed many alternative methods exist for recording and reporting the results of operations of a business in accordance with generally accepted accounting procedures. Because of the increased importance of the income statement, net income should be determined in such manner as neither to understate nor overstate materially the results of operations of a business. The income statements should present the results of operations in such manner as to be not misleading, and yet to be in clear, concise terminology understandable by the lay reader of published annual reports. Although great progress has already been made, it is the responsibility of the accounting profession to take a definite stand on controversial issues and to make specific recommendations concerning their accounting treatment.

Trends—Balance Sheet

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tion. In 1950, only one class of stock was shown by 280 of the survey companies; and by 1963 this number had increased to a total of 332 companies. The term "capital" as applied to common stock is giving away to the term "common," and the term "par value" is being used more frequently than "no par value."