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Accounting Data as a Basis for Administrative Judgment

HOW often has a client been known to say, "This is a very fine looking report but it doesn't tell me what I want to know"? How often has a public accountant's report been condemned and thrown aside because, while superb in appearance and perfect in form, the content was well-nigh meaningless?

The public accountant realizes, presumably, that he is a renderer of service; a purveyor of information; and that the information will be used by some one who has not the time, inclination, or technical knowledge to prepare it.

The president of a large corporation may once have been a professional accountant. He may be familiar with all the technique of accounting. But he may have so many other things of importance to do that he is not able to take the time required to prepare a mass of accounting data needed in the determination of some financial or operating policy.

The trustee under some important trust agreement may know what to do or not to do once he has certain information, but he may be lacking in the technical knowledge necessary to the acquisition of the information.

So it is that the public accountant needs to spend more time in thinking about the purpose for which his forthcoming report is to be used before he begins his field work. He may properly inquire of the client the use to which the information is to be put if he is unable to so determine. The American accountant is applauded for his ability to recognize and treat of the big things in an accounting situation while he passes over the insignificant details. He may well give more attention to putting himself in the place of the client, or of the user of the information which he incorporates in his report.

"Facts not opinions" is said to have been

the slogan of a famous engineer. "Causes as well as results" might be a fitting slogan for accountants. The changing times of the past few years have made necessary many changes in procedure. Comparative figures which once told a significant story may now, owing to changes in basic factors, be entirely meaningless, if not misleading.

It is true that any attempt to go behind the cold figures and interpret them may lead the accountant into the field of statistics. Whether statistics as a subject is a branch of accounting or accounting is a part of statistics has not been settled. Just when it will be nobody knows. So far as the business man is concerned he doesn't care. Facts are what interest him. If it is necessary for the accountant to follow up the information drawn from the financial books with statistical data, the units or other factors for which are taken from subsidiary memorandum books, or even evolved by the accountant, he will meet with little objection from the client if they have real value.

From a practical point of view care must be observed to make statistics of value. There is such a thing as overdoing statistical compilation and presentation in a report. It takes time to gather and set it up in the rough. It costs considerable to type it. Unless, after it is incorporated in a report, the client is able to use it, there is likely to be dissatisfaction at the expense involved. Few accountants, it is believed, err on this side. In most cases of criticism the fault lies in the utter failure to explain or interpret the figures.

An increase or decrease in the cost of production for a given period may be of interest as explaining a fluctuation in the profits, but it affords little assistance in the matter of management or future production. Detail figures as to materials and

supplies consumed in past production, stock in hand, contract prices covering future periods, labor's "bill of prices," past, present and prospective, or required rates of overhead, are much more to the point in so far as the manager is concerned.

Some one has said that the accountant should not attempt to play the role of prophet. Obviously this is conservative to say the least. It may be remarked, however, that no one is better prepared to offer opinions as to the outlook indicated by the accounts than the accountant. If the past in a given case is any index as to the future, then the accountant, after a careful study of the facts, is as well qualified as any one to venture an opinion as to the results of future operations.

In a recent case which is perhaps somewhat unique in the practice of accountancy the client took the trouble to confer at considerable length with the accountant and explain in detail numerous points of information, many of them bearing on statistics, which were wanted by the client. In this connection the client, being a trustee for bondholders under a public utilities mortgage, said on one point: "Set up the date at which changes in rates have occurred. In some cases the change can be briefly stated in a paragraph or two. If it be too complicated, a copy of the order granting the increase can be submitted. In any event, the date at which the rates change is of value in analyzing earnings and operation."

In this connection it may be pointed out that an increase in earnings, in a utility like electricity for example, may be due to one or more of several things. First, the rates may have increased. Further, the number of consumers may have increased, or the consumption may have increased due to some general cause like a reversion to the hours in effect before daylight-saving became operative, or to some special cause like an extended celebration

accompanied by special illumination, or the installation of some electricity-consuming plant which has every probability of continuing in service.

Cold figures showing an increase in earnings are not in themselves particularly helpful to any one interested in operations. An increase in earnings when accompanied by the reasons is a live, useful bit of information which gives the operating official a basis for planning his affairs for the future.

The client above mentioned may be quoted further on this point, viz.: "The net earnings in themselves no longer definitely reflect the financial condition of a company. The company may have increased earnings, due to numerous small rate increases or surcharges, and still sell less gas, have fewer consumers and generally be weakening in its power to serve a satisfied public. Also, a majority of the earnings might be dependent upon one consumer, who, if dissatisfied, can drop off service and cause a considerable dent in the earnings curve."

Increases in operating expenses may likewise furnish opportunity for extensive investigation and report as to the cause or causes. One case where the net earnings fell off markedly showed that the coal costs had increased substantially, thus increasing the operating costs. Investigation disclosed the fact that the company had abandoned its former policy of buying coal for consumption and was mining its own coal. The higher cost as compared with coal purchased was apparent in the company's cost of production.

Many are the instances which might be cited to show the use to which facts concerning financial operation and condition might be put. Perhaps the accountant needs in some cases to teach his clients how to use the reports with which he supplies them. It is possible that there is no way in which he may be of more use than in

telling the client what the figures mean in addition to supplying figures which are correct. The figures are presumed to be correct. To interpret them, within reason,

will go a long way in the crusade which is so badly needed, namely, to make accounting data serve as a basis for administrative judgment.

Checking Lap-overs

WHILE all of our practice offices are cognizant of the fact that we have had a number of quite extensive engagements from railroad companies during the past two years, many are not aware that most of these engagements arose through the taking over of the important transportation systems by the Government in December, 1917, and consisted of checking "lap-overs."

It will be recalled that without previous notice, President Wilson, by a proclamation dated December 26, 1917, took possession of all important transportation systems on December 28, 1917, and directed that their control and operation be exercised by William G. McAdoo, who was appointed Director-General of Railroads. While possession of the railroads was assumed on December 28, 1917, the proclamation stated that for accounting purposes possession and control would date from midnight of December 31, 1917.

While the President had power under the Act of Congress approved August 29, 1916, to take possession of the railroads, he had no authority to enter into agreements with the companies for compensation for the use of their properties until granted such authority by the Act of Congress approved on March 21, 1918, nearly three months after the roads had been taken over. It took nearly six months longer for the representatives of the Government and of the railroad companies to agree upon standard clauses for use in the contracts between the Government and the railroad companies, with the result

that few contracts were signed before the year 1919, and, in fact, some contracts have not yet been signed.

A few days after his appointment as Director-General of Railroads (on December 30, 1917, to be exact) Mr. McAdoo issued an order reading as follows:

"Until otherwise directed, no changes in the present methods of accounting as prescribed by the Interstate Commerce Commission will be required. The accounts of your respective companies shall be closed as of December 31, 1917, and opened as of January 1, 1918, in the same manner as they have heretofore been handled at the close of one fiscal period and the beginning of another, and in the same manner that you should have handled your account had the Government not taken possession and control."

No other general orders relating to methods of accounting were given until April 3, 1918, when General Order No. 17 was issued. This order provided, among other things, that each carrier subject to Federal control should open new and separate books of account (designated as "Federal Books"), such as cash books, general and subsidiary ledgers and journals, and all supporting and subsidiary books and records incident thereto, upon which should be recorded transactions which arose under and were incident to Federal control on and after January 1, 1918.

This same order provided that all transactions which arose after the closing of the