1921

Accountant and the public

Anonymous

Recommended Citation
Haskins & Sells Bulletin, Vol. 04, no. 11 (1921 November 15), p. 102-103

new corporation, at the same time changing the form of capital stock, the situation appears to be entirely different. The opinion of many accountants is that there is no question of surplus involved. A newly organized corporation ordinarily has no surplus. There is a case on record in which the balance sheet of a predecessor corporation was copied into and made a part of the contract of sale. And it is probable in this case that through the force of circumstances surrounding it, the successor corporation did acquire the surplus shown by the balance sheet. This, however, is a most unusual case.

Ordinarily a successor corporation acquires the net assets of the predecessor corporation. The value of the net assets automatically fixes the amount of capital of the successor corporation. The capital value per share is determined by dividing the number of shares without par value into the amount of capital.

It is possible, of course, under the New York law, for the stated capital to be fixed at an amount less than the value of the net assets acquired. If the stated capital were to be so fixed the difference between the net asset value and stated capital naturally would have to be designated as surplus. This in fact would be capital surplus or surplus arbitrarily taken from the capital. It does not seem feasible to trace it back to its origin in the predecessor company and determine whether it was derived from earnings or capital. By reason of the philosophy which regards the net asset value of the old corporation as the capital of the new corporation, it must be considered as capital.

Under such circumstances there appears to be little doubt that the surplus should be properly ear-marked as capital surplus and not made available for dividends. The courts possibly would not uphold such position, yet good accounting practice demands such procedure. There is apparently no reason for setting up such a surplus account except to make the capital account coincide with the amount of stated capital set forth in the certificate. There is apparently nothing gained by so doing. It would probably be better to leave the whole amount representing the net asset value in the capital account, even though a balance sheet would show capital in excess of that stated in the certificate.

(*To be continued*)

The Accountant and the Public

MOST of the disputes in which mankind becomes engaged involve money matters. Claims are variously made that prices are too high, profits too great, or wages too low. Strikes as a rule grow out of situations wherein the wage is not deemed satisfactory by the employe or an attempt is made by the employer to reduce the wage.

The wage earner undoubtedly knows when he is not able to live and support his family decently on the wage which he is receiving. The employer knows whether or not the public will stand for an increase in price or the stockholders a decrease in the return on their investment. Wage earners and employers assert and re-assert. Neither believes the other, nor is the public any less skeptical.

Many of the profit sharing schemes which have been in existence in the past have broken down because of lack of confidence by employes in the statements made by employers. Many conferences held for the purpose of arbitrating disputes between employers and employes have failed because both of these two parties went into the conference lacking confidence in the statements and figures made by the opposing side. It has been a matter of foregone conclusion, frequently, that negotiations for the settlement of strikes would fail because neither side believed the other. Each had the feeling that the other was striving to win whether by means fair or foul and regardless of facts or what purported to be facts introduced into the argument.

In the present controversy between the milk distributers and their employes the public is interested because of the effect which the result is likely to have on the price of milk in the future. Leaving out of consideration the question of whether or not the demands of the strikers are justified, the fact remains that if the distributers accede to the demands as made, the public will have to bear the increase. The distributers are not to be blamed if they do not feel disposed to absorb the losses occasioned by the increased wages. The stockholders in the company are entitled to a reasonable return on the money invested in the enterprise. It is an economic necessity that this be so. Under such circumstances there is nothing to do but pass on the increased wage to the consumer through an increase per quart in the price of milk.

On the other hand, if by a revision of the bill of prices previously existing between the distributers and employes, it is possible to reduce the cost of distribution, the result will either increase the profits of the company or reduce the price of milk.

The public is naturally concerned with future prices of milk. It has co-operated with the distributers throughout the recent crisis. It is only natural that the public should look forward to some benefit from a saving to be derived from reducing the cost of milk distribution. And the whole question is bound up with costs and accounting. The public is dependent upon the distributers for a statement as to what it costs per quart to distribute milk. The public must rely entirely on the distributers as to whether or not any saving is being added to profits or used to reduce prices.

With this in mind, now comes one of the largest distributers in the New York district and announces that the average net profit of that company per quart of milk handled will be limited to one-half cent. For the satisfaction of the public this company agrees, and has so announced in the press, that it will publish annually the average net profit per quart of milk handled as established by certified public accountants of high standing.

This is only one of the many ways in which the accountant of today is serving as an effective instrument in establishing harmonious relations among the various branches of our economic system.

Recent Changes

We announce the appointment, effective November 15, 1921, of Mr. A. M. Lovibond, manager of the London office, as manager of the Paris office, to succeed Mr. Howard P. Garner, resigned.

Mr. Garner withdraws to join the staff of the Bankers Trust Company in Paris, where he carries with him our best wishes for his success in his new connection.

Mr. Lovibond joined our organization in 1907, as a member of the New York staff, and was appointed manager of the London office in June, 1916. He is a certified public accountant of the State of New York and a member of the American Institute of Accountants.

Mr. Lovibond will make his headquarters at Paris as soon as his engagements at London release him.

We announce the opening, as of December 1, 1921, of an office in Minneapolis, Minnesota, in the Security Building, and the appointment of Mr. B. C. Hightower, formerly of the Chicago staff, as manager.

Effective November 16, 1921, Messrs. W. I. Wharton and R. W. Peters have been