

University of Mississippi

eGrove

Haskins and Sells Publications

Deloitte Collection

1921

A Little Learning

Levin Clayton Matthews

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Haskins & Sells Bulletin, Vol. 04, no. 06 (1921 June 15), p. 50-52

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

state what information he desires brought out in the report, otherwise the report loses much of its value."

This type of client is highly satisfactory in this respect from the point of view of the accountant and by reason of such procedure the burdens of the accountant are lightened. It is helpful to know what this client wants, but it must be borne in mind that he will not be satisfied unless he receives a report which contains the information desired. Ascertaining what is desired is but a step precedent to supplying the information. This in turn only leads up to the satisfaction of the client.

The problems of a big organization rendering professional service are many and diversified. The work is beset with many pitfalls not the least of which is the ten-

dency to lose the personal touch and interest. Criticism of this nature is frequently made. It is frequently justified. But the tendency should not be permitted to develop. Close and thoughtful application to the work on the part of the accountants on the engagement, intelligent and intensive supervision, frequent contact of principals with client, all working together with minds fixed on the desires or needs of the client afford the remedy or preferably the preventive for such criticism. Size of organization should have no effect on the quality of service if there is effective co-operation on the part of everyone who has a hand in rendering the service. The desire for satisfaction to clients should be the whip which serves as a stimulant to co-operative effort.

"A Little Learning—"

By L. C. MATTHEWS, Manager, Atlanta Office

THE time honored maxim with respect to copious imbibition from the Pierian Spring, when applied to a knowledge of corporate management, is perhaps more observed in the breach than in the performance.

We firmly believe that the elements of corporate procedure and management should form a basis of the so called "business course" now included in the curriculum of our public schools.

Many students pass directly from the public schools into business without even a working knowledge of a corporation. The attendant results are often disastrous. Almost any experienced accountant in public practice is able to catch the thread and follow the machinations of a crook, but the ignoramus is the fellow that keeps us guessing.

An accountant engaged on an audit of the accounts of a large jobbing corporation was once asked by the vice-president

and treasurer of the company, "What are the rights of a *partner* in a corporation?" When the official was told that there were no *partners* in a corporation; that he was a shareholder by virtue of the amount of capital contributed; that he was a director by the votes of the stockholders; that he was an officer of the company elected by the directors; that all of his rights, as well as his duties, were defined in the charter and by-laws of the company; he very frankly admitted that he had never read either of them. About a year after this incident, the company was adjudged bankrupt and the aforesaid official did not survive the disaster.

Two young men, in a neighboring state, with abundant capital, supplied by indulgent fathers, secured the agency for a popular motor car and started on a business career. The employment of several different bookkeepers, all of whom were more or less deficient in the knowledge of

practical accounting, together with the passage of the income tax law, caused them to employ the services of a public accountant to determine "where they were at." The accountant seeing in letters of gold on their office window "John Doe & Richard Roe, Inc.," and the same title on their business stationery, very properly asked to see their charter, by-laws and book of minutes. They produced a document from their safe which upon examination proved to be an application for a charter prepared by an attorney (for which they had paid fifty dollars), but which had never been signed by themselves or granted by the court. Of course no by-laws or book of minutes existed. Their expressed reason for the title in use was to enable them "to sue and be sued." They continued, as a partnership, in a highly profitable business. There is indeed a divine Providence that looks after some of them regardless of what they know.

A country engagement presents a phase where a young man, with no business education or experience whatever, backed by the ever indulgent rich parent, "bought out" a small, seemingly prosperous, manufacturing concern which was supposed to be incorporated. An audit of the accounts was not required on the occasion of the purchase, not even a trial balance was made, nor could have been made since practically no books were kept. Someone connected with the business, however, had prepared and filed an income tax return, full of inconsistencies and errors, as a result of which the federal government has presented a claim for additional taxes which, if correct, will result in bankruptcy for the "company." It may be possible to save the concern if any records are obtainable with respect to its operations.

A large manufacturing concern that we know of failed to renew its charter and operated for nearly a year as a de facto corporation, simply because those respon-

sible did not know that a renewal was necessary, or forgot to give the matter attention.

A public service corporation increased its capital stock in a large amount by a resolution of its board of directors, but without a proper amendment to its charter and without authority of the public service commission of its state.

A partnership of four members, doing a business of a million dollars per year, resolved itself into a close corporation. Each of the former partners is an officer of the corporation and it is still their practice to have the bookkeeper handle, on the corporation's books, all of their private and household accounts, even to the smallest of items. They would not accept any system of accounts designed to preclude such practice, but insisted on a column in the cash book provided specially for such items. These personal accounts serve as vehicles in which a designing bookkeeper may carry concealed many items properly belonging to the company's operations. Each account is like unto a vermiform appendix, which will sooner or later require an operation at the hands of a public accountant.

The declaration of dividends resulting in the impairment of capital stock is not infrequent and is often the result of ignorance rather than design. It is hard for a layman to understand why he can put his money into a concern and be unable to draw it out.

There is one corporate phase, however, that is never forgotten—the limit of the stockholder's liability to the amount of his paid up stock. This is an anchor to windward which never drags—a right present help in time of trouble.

The foregoing examples will serve to illustrate some of the results of a lack of rudimentary knowledge existing throughout the country as revealed in our practice. Of course there are many large corpora-

tions with high salaried legal departments which do not commit such blunders. The woods are full of them, however, who pay little attention to corporate matters and it is up to the public accountant to bring their ignorance and carelessness to light.

Cuba's Financial Situation—(Concluded)

By C. M. CLARK, Acting Manager, Havana Office

A SUGAR BOARD was created to maintain the price of sugar and control sales. The most powerful means which the Board could have had to control the situation, it did not possess, namely, the ability to finance the mills and the crop. The price has been maintained to a certain extent but sales have been limited. Considerable activity was evidenced during the latter part of April in transferring sugar to the United States in order to have it landed there before the Fordney tariff provisions should become effective, but such transfers were not necessarily sales.

Little difficulty was experienced by the banks in February. The Torriente Law required only a payment of 15 per cent. of moratorium balances and 10 per cent. had already been paid. The middle of March was passed without trouble although the pinch for money was beginning to be felt. The planters needed money, the mills needed money, in fact throughout the interior of the island it was difficult, almost impossible, to get money.

On behalf of the Banco Nacional, a commission was sent to the United States to secure the necessary funds for the middle of April moratorium payment. On April 9 the bank announced its inability to secure the necessary funds and did not open its doors for business.

Acting in good faith with the post moratorium depositors, the bank issued to them drafts on the Royal Bank of Canada for their balances. Its affairs were then turned over to a liquidating commission.

Directly following the closing of the Banco Nacional vehement attacks were made upon the American and Canadian banks, particularly upon the Royal Bank of Canada. The consequent run upon that bank was met only by telegraphic instructions to remain open until midnight if necessary to pay depositors. Rumor that the foreign banks would not stand behind their Cuban branches was thus successfully met.

During the week of April 11, a loan, said to be \$20,000,000, was obtained by a combination of financial interests, and a corporation was formed to finance the mills and the sugar crop. This organization has been credited with the ability to raise whatever funds are necessary for its purposes. It is backed by the interests of the Guaranty Trust Company of New York, the Royal Bank of Canada, and The National City Bank of New York.

The situation as this article is written has eased considerably but the next strain will probably occur as the date for the middle of May moratorium payment approaches. The political situation has been cleared by the recognition by the United States of Dr. Alfredo Zayas as the duly elected President of Cuba to take office on May 20, 1921, and by the withdrawal of General José Miguel Gomez from the political field.

There is a great deal of hoarding of money. Importation and sale of small family safes is extensive. A practice which dates back to the time when merchants throughout the island had more confidence