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Banker, the borrower, and the account

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The Banker, the Borrower, and the Accountant

THE banker holds the purse. Whether or not the strings are tight may depend upon the point of view. The conditions surrounding individual cases may also affect the situation.

The loanable fund of the banker must be kept intact It must not be jeopardized nor allowed to pass beyond the liquid state. Its proper use is to facilitate and finance current business processes; not to furnish permanent capital for business enterprise. The very essence of bank credit lies in the fact that it shall flow here—there—whenever—and wherever needed.

The banker recognizes the principle of trusteeship. He loans from the purse funds entrusted to him. His policy is governed by his sense of responsibility. His rules are formulated with a view to protecting himself in this responsibility.

Having in mind the theory of bank credit and the responsibility of the banker, there is small wonder that he is particular about the loans which he makes. Good business judgment dictates that he shall demand satisfaction as to the financial standing of the prospective borrower, his capacity and character as a business man, and his ability to repay according to the terms of the loans.

Upon the commercial borrower falls the burden of satisfying the banker. He is in a position different from that of the borrower on collateral, who lays down his security and lets it speak for him. The commercial borrower must furnish evidence of his condition, capacity and character. There is no help for it. The immutable laws of bank credit, not the whims of bankers, demand it. The sooner the applicant reaches the frame of mind wherein he is willing to make a confidant of the banker, the sooner will he, if he is entitled to credit, find the way made easier for him.

Many who are in a position to know think the practice of making loans on character and "hunches" is swiftly passing into disuse. It is being very generally supplanted by scientific investigation based on financial statements. The information supplied by such statements is far reaching. It goes beyond the meager balance sheet of the past, which was framed to give as little information as possible.

The statements representing the most advanced thought on the subject probably go far beyond anything which the average borrower ever anticipated could be shown by financial statements. But in the hands of competent bank credit men they throw light on the innermost recesses of the borrower's business workings and bring out innumerable angles which bear on financial condition and business capacity. They develop confidence if confidence is merited, and expose unfavorable conditions and inefficiency where they exist. Thus the deserving borrower, who is intended to be served by the short term credit-granting scheme, not only has nothing to fear from submitting comprehensive and illuminative statements, but is benefited thereby.

The public accountant has a peculiar and exacting obligation in the triangular situation. His access to the books and records of the borrower, who is his client, puts him in possession of financial information which is intimate and confidential. His employment puts him under the necessity of meeting the wishes of his client with regard to the information to be given out. His disposition is to make a full, frank statement which will be informative and acceptable to the banker, knowing that the banker relies on such statements. It seems to follow, therefore, that the interests of the borrower can best be served by placing the matter in the hands of the accountant, who, through contact with bankers in his professional practice and familiarity with the bases on which credit is granted, is in a position to know what is desired and to present such information in a way which will be acceptable.

A better understanding of the triangular situation seems essential to satisfactory relations among the parties involved in the granting and obtaining of commercial credit. Co-operation among bankers, borrowers and accountants, with the accountant free to supply data such as the banker desires, cannot fail to result in better credit accommodation to borrowers.

Non-Par Value Stock from an Accounting Point of View
(Concluded)

CASES presenting complicated problems under the laws governing the issue of stock without par value are already arising with some frequency. The prospect for interesting litigation growing out of such cases is excellent. The lawmakers, in endeavoring to remove existing opportunities for abuse, presumably thought to take a forward step when they introduced the first law bearing on common stock without par value. They added immeasurable opportunity for involvement, probably unwittingly, when they went a step further and made similar provision for preferred stock.

Preferred stock without par value is already on the market. The certificates, in the case of one corporation, are numbered and show the number of shares which they represent, as usual. There is no reference to the amount for which they were exchanged when issued. How the purchaser of shares from any holder other than the issuing company can tell whether he is buying something worth ninety-five dollars or fifteen cents, is a problem. How a quotation is to be established is equally baffling. The company may know how much was received from the sales of such stock, but how is the subsequent purchaser to determine unless the paid-in value or the redemption value is endorsed on the stock certificates? And how is the transfer to be accomplished except the paid-in value or redeemable value is endorsed on the stock certificates? How, when shares of preferred stock are issued originally at different rates and afterward merged into a block