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Clear Trails

ONE of the arguments often advanced in favor of a corporation is that its existence and continuity of operation do not depend on the life of any particular individual. Those who have relations with the corporation may develop preferences as to the representatives through whom they transact business. One individual may be popular; another unpopular. There may be varying degrees of efficiency among employes. One or many employes may sever the connection. But in the background, assuming the responsibility, the corporation must take up its place.

So in public accounting the practitioner who establishes relations with clients must carry on regardless of what happens. If his practice is of sufficient size he may need assistants. And he may be able to employ assistants who will help him effectively in his work. Some of these may take more interest in the work and work more intelligently than others. But again, whether their work is good or bad, the responsibility for giving satisfaction to the client rests with the practitioner.

The development of business in this country has necessitated an intricate and complicated organization fabric. Big business calls for big organization. Consequently, it has become necessary for some of those who practice public accounting to organize so as to meet the demands of large business enterprises with their many sided interests and widely scattered activities. Public accounting has assumed a position, international as well as national, in its scope.

It may, therefore, not seem illogical if one of the principal problems of large organization for accountancy practice is found in the personnel and the working trail which it establishes. Of necessity large in number, shifting rapidly about, traveling hither and yon, turning over and fluctuating in size, the staff of any large firm is a matter of no small importance with which to reckon. Regardless of how careful the selection or conscientious the training, there is always much left to be desired. On the other hand, even given the spirit and the will, it is never possible for the members of the staff to attain that degree of perfection and smoothness which would make them interchangeable like the parts of a machine. The intelligent thought which accountancy demands of its practitioners, irrespective of grade or rank, forbids that this should be so.

But there is offered in the form of working papers a means whereby the substitution, replacements, or shifting of staff may be effected with a minimum amount of friction or lost motion, requests of clients for assignment of certain men may often be met, questions of clients answered and involved situations explained. Not long since the staff requirements of a newly opened practice office made necessary the transfer of a certain man. An important client expressed great regret at this because the accountant was well into one of his engagements which, although at the time suspended, was to be completed at a later date. The client was somewhat placated when shown the working papers left behind by the accountant in question and assured that an equally competent man would pick up the threads and carry the engagement on to completion with no loss of time. And such later proved to be the case to the eminent satisfaction of the client.

The extent to which matters of this and the other kinds mentioned become possible depends on the appropriateness, clearness, and completeness of the papers.

Investigation shows that many accountants make more working papers than are necessary. Rare judgment is required to determine what is appropriate under the circumstances of a given engagement. The things which need to be covered are those which are not easy to follow. Whatever is or should be apparent to the person of average accounting intelligence needs no special explanation. The data which should be set forth is that which will answer the meanest and sharpest question which anyone, friend or foe, might ask. Many papers are appropriate but not clear, while others are both appropriate and clear as far as they go, but do not follow the matter to a conclusion.

Clear trails are indicative of good work and clear thinking. They are helpful to the fellow who has to follow, whether it be an accountant on a repeat engagement or a principal who has to discuss matters with clients long after the man who did the work has forgotten about it. After all, the firm has to take up its place in the background, ready always to discuss, explain, or render service to clients, whenever or wherever required, and irrespective of when, where, why, how, or by whom, the work was done. Clear trails make such responsibility easier to undertake.

Judgment Guiding Financial Statements
(Continued)

OPINIONS may differ as to the effect which laws providing for preferred capital stock without par value may have on the affairs of corporations and individuals who are stockholders therein. There are always persons who view any attempt to point out possible pitfalls as destructive criticism. And opinion to the effect that laws permitting the issue of no-par value preferred stock are inviting involvement may be quite properly challenged. But the signs set up by many actual cases point so sharply to the conclusion that one who so opines need have little fear of being discredited.

A recent case shows a corporation having three classes of stock; cumulative preferred, convertible preferred, and common, all shares having a par value of $100 each. The balance sheet at a given date reflected a fair margin of surplus.

The company was reorganized by the formation of a new corporation having four classes of shares, all without par value, namely, cumulative preferred class A, cumulative preferred class B, convertible preferred, and common. The new stock was exchanged with holders of the old stock, share for share, except that for each two shares of old cumulative preferred a holder received one share of cumulative preferred class A, and one share of cumulative preferred class B. Incident to the transfer of values from the old to the new corporation certain assets were written down to the extent of several millions.

When the balance sheet of the new corporation was set up the work of ass'gning proprietary interests in the excess of assets over liabilities developed a peculiar condition. The provisions of issue gave values in liquidation to the shares as fo lows: Class A, $100 per share plus any accumulated or accrued and unpaid dividends; class B, $127.50 per share, less any part of $27.50 per share which might have been declared as additional dividends, plus any accumulated or accrued and unpaid regular dividends of the new corporation; convertible preferred, $100 per share; common, any remaining assets.

Attempting to take out the proprietary