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having his own way. The accountant may have to swallow his professional pride, but the practical solution demands it, and he may do it without any sacrifice of professional integrity.

The occasion for refusal is the case where the statement, if allowed to stand with the accountant's name on it, would make him a party to misrepresentating the facts, or to misleading the reader. The test of cases on the borderline is: "Are they misleading?" If they are, the accountant's name has no place in connection with them. Rather than accede to a request for such service his duty requires him to quit the engagement. If he does not, he falls into dishonor in a profession where the chief virtue is integrity. If an accountant's name stands for anything, it stands for integrity. Loss of practice by reason of refusal on the part of an accountant to place his integrity in jeopardy, or even in question, is honorable, even though painful, and can be but temporary. Practice with dishonor might be financially profitable for a time, but the risk would not be worth the gain, even if there were no question of professional consciousness involved.

Classification of Serial Maturities

DEBATABLE questions are sometimes said to provide some of the spice of technical procedure in accountancy. As one looks over the list of such questions there are many which appear to be possible of settlement through the application of refined classification. In fact, most of the questions of classification probably may be settled by sufficient consideration of the variable factors which affect the problems and corresponding refinement in providing for the conditions to which variation gives rise.

One of the outstanding questions of classification involves serial maturities of funded or long term debts. The present somewhat marked tendency of so arranging bond and note issues that the maturities will be spread over a period of years, furnishes the occasion for considerable attention from time to time to this matter. The question at issue is when, if ever, maturing installments should be included among the current liabilities. This is a matter which obviously has considerable bearing on the current ratio, and may distinctly affect the current position of a company depending on whether this installment about to mature is or is not included as a current liability.

The classification prescribed by the Interstate Commerce Commission, which has served as a substantial basis for much of the legislation affecting accounting, deals with funded debt maturing, as follows:

> "There shall be included in this account the total par value of unmatured debt maturing more than two years from date of issue, issued by the accounting company and not retired or cancelled. * * * "

This provision is so interpreted and applied that debts maturing one day after a balance sheet date are held to mature as of the balance sheet date, while maturities falling on the second day following a balance sheet date are considered to have fallen without the period closed by the date at which the balance sheet is prepared. In other words, in a case where the balance sheet is of December 31, and the question is one of deciding, under the provisions of this section, whether or not a maturity debt should be classified as unmatured or matured, if the date of maturity falls on January 1, the obligation is regarded as having matured December 31. If the date falls on January 2, the debt, for

purposes of the December 31 balance sheet, has not matured.

While the accounting for utilities does not take as much cognizance of current position as is taken in the field of commercial activity, the position and classification as to maturities may have some bearing on the picture displayed by the balance sheet. In the commercial field not only is increasing attention being given to current position, but thousands of ratios are now being built up for purposes of comparison and differentiation with respect to companies operating in the same field over a period of years and to companies operating in various lines of business. Where installments are maturing in like amounts from year to year, the effect on current position, granting that the obligations are to be redeemed, would be uniform over the period during which the maturities fall due, and during such period would not distort, in so far as fluctuations are concerned, the current position of any company. This, possibly, would not be prejudicial to the standing of any company except where the period of maturities is of short duration and an attempt might be made to compare current position during this short period with a long stretch preceding and following the period under consideration. Difficulty would be encountered in undertaking to compare two companies where, with the obligations being redeemed as they mature, one company were to include the maturities as current, while the other company were to exclude such items from the current liabilities.

The difficulty in attempting to suggest a rule for the settlement of a question such as the one under discussion lies in the fact that the financial procedure may vary not only with respect to different companies, but within the same company from time to time. Maturing obligations may be redeemed or they may be refunded. Where they are to be redeemed as they mature, there is a strong argument in favor of including the maturing installments among the current liabilities. Just where to draw the line as to when an obligation of this kind becomes current is a somewhat difficult matter. The general tendency is to follow the arbitrary period of two years laid down by the Interstate Commerce Commission. Even with this aid, however, the problem is not entirely solved. The accountant at times is not in a position to ascertain what disposition will finally be made of maturing installments. Proceeding on the statement of intention on the part of company officials as to the disposition of an item about to mature, the accountant might easily be placed in the somewhat embarrassing position of including it among current liabilities, only to have the obligation refunded when it falls due.

On the other hand, there is a possibility of serious criticism if an accountant puts out or is a party to a statement put out by the company in which a substantial amount of maturing debt has not been brought to the attention of anyone who may have occasion to read the balance sheet. There is some doubt as to which is the more preferable position to be in, namely, to have included something which should not have been included, or to have failed to include something which should have been included. Either position seems to augur ill for the accountant if he attempts too much precision in the way of classification with respect to this item.

The solution of the problem which seems to meet the situation with fairness alike to the client, to anyone who may read the balance sheet, and to the accountant, consists in making use of the very useful device of parenthetical explanation. If following or underneath the caption setting forth the debt in total, there is inserted in parentheses a memorandum showing the

date and amount of the next maturing installment or installments, if the situation requires the latter, every purpose appears to be served. The reader is on notice as to the time when the installment will mature, the facts have been stated, and even though sharp classification has been purposely avoided, even the statisticians who may have occasion to use the figures are in a position to adjust the current liabilities or not, as their judgment or scheme of use may dictate.

Padded Inventories

NOT long since the daily papers contained reference to a report filed in the Federal Court by the receivers for a silk concern in which, according to the newspapers, it set forth that "the inventory of the corporation was overstated by a sum in excess of $1,250,000, and that the overstatement was concealed from the accountants and appraisers by the creation of false records for the purpose of deceiving the bankers."

Newspaper reports are not needed to recall other instances where inventories have been used for purposes of deception, to conceal losses, inflate profits, and generally produce favorable results. During the past three or four years conditions have been ripe for this sort of thing, due to the marked fluctuations in price levels and the readjustments occasioned by economic influences.

The subject of inventories is one which all accountants who are thoughtful and sensitive to the risk involved need to approach with some fear and trembling. Granting, however, that the accountant takes his professional life in his hands, so to speak, when he approaches a situation in which inventories are involved, there is still no reason, apparently, why he should not make use of such common sense as he has without relying solely on the somewhat perfunctory technique usually employed in verification procedure.

The story of inventory requirements from an accounting point of view is old and worn, but, perhaps, like the oft-told tale, it becomes so commonplace that it is accepted as a matter of course and forthwith disregarded. The word *inventory* implies the physical existence of materials or goods. This existence, obviously, is prerequisite to value. Further, the term definitely means a counting, listing and valuing of goods. The verification of an inventory then involves several questions: (1) becoming satisfied as to the existence of the goods; (2) that they were accurately counted and listed; (3) that the prices used in valuation were proper; and (4) that the mathematical computations necessary to arrive at a total were correct.

On the first point evidence is frequently impossible beyond the attestation of persons who took or supervised the physical count, except in those somewhat rare instances where the accountants were in charge of such work. Too frequently no physical inventory is taken and the quantities are drawn from the book records. There is here, of course, an added question as to whether or not the balances on the stock records reasonably represent the goods in existence.

As to the counting and listing the accountant is likewise dependent on the word of others, except as he may have the opportunity to test the schedule from original memoranda made in the case of a physical inventory when the count was taken. Prices used in valuation, however, are usually at his disposal, and it is in this particular, usually, that he may render most intelligent service. The basis of valuation is too well established to call for much question. Cost or market, which-