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Business point of view

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The Business Point of View

ONE hears sometimes a distinction made between the business and the accounting points of view. Wherein the difference lies is seldom made clear. What may be done from an accounting viewpoint which is not correct from a point of view of business? Conversely, how may the business point of view differ from that of accounting?

Accounting is intended to give expression to the financial facts of business. It exhibits financial results, conditions, relations, leads to conclusions, and indicates tendencies. It should disclose substantial information of interest to any and all parties related to an enterprise, whether the parties are inside or outside the organization. Granted only that the parties have either a legal or a moral right to the data, accounting, to be true to its purpose, must present the facts to anyone who may read in a manner which is clear, understandable and frank.

A balance sheet, as well as any other financial statement, should be fair, honest, impartial, simple, straightforward, truthful, and one might almost say unreserved, if it were not for the technical significance which the last word has. But occasionally a statement half as ingenuous as the limit set by the foregoing prescription would bring about consequences detrimental, if not disastrous, to certain business concerns.

A business man who has an agreement to submit a financial statement to banks, trade-creditors, or anyone else at interest, is obligated by the moral code to produce a statement which fulfils all the conditions demanded by accounting. There is no warrant for hiding behind technicalities. Any such procedure but defers the day of reckoning, and in the meantime leaves a smirch which further damages his case. Open, fair, honest disclosure of facts, with a determination to face and meet the problems, if any, involved therein, has been found by wise business men to be the best policy.

The points of view of business men and public accountants should be identical, if both run along the same moral plane. Accounting and business procedure should coincide absolutely when guided by the same moral standards. When business results, or business success, would become prejudiced by accounting statements true to facts and moral ideals, the relationship between business man and accountant becomes impossible unless one becomes subordinate to the other. The accountant has no choice in the matter. Subordination of accounting facts to the requirements of business is out of the question. There can be no wavering. There should be no hesitation.

Any distinction between the accounting and the business points of view is a false distinction. There may be a difference; not a distinction. The difference if it exists is one of morality.

The Neglected Income Statement

WRITERS on the subject of accounting generally have centered their attention and discussion on the balance sheet. This is perhaps but natural, as the balance sheet constitutes a summary which organizes the aspects of financial status and is the capstone of financial data.

The income statement has not received the attention which it merits, either in the light of its value as a means of effective administration or as to the philosophy underlying it. From the promiscuous assortment of income statements available, published and otherwise, one may reasonably receive the impression that its growth has been somewhat like that of Harriet Beecher Stowe's "Topsy."

Following the historical development of the present form of statement one sees, first, a grouping of the loss and gain accounts, which generically may be called measurement accounts, in a statement taking account form. This represented little more than a classification of the positive and negative forces affecting the business capital so as to show the net effect thereon. Next came the influence of the railroad accountants who introduced the running form and attempted to set off the profit at one or two points, in order to relate the profit to certain sources. Later is seen the stamp of certain public accountants, followed by that of the university schools, in bringing out refinement in classification and grouping and recognizing a more scientific basis for income accounting.

The bookkeeping theory of the profit and loss account in which the income statement had its origin is that the profit and loss account shows the accretions or decretions of capital through gains and losses, not only those growing out of the manipulation of capital with a view to gain but, in addition, those gains and losses which, while not immediately related to the main purpose of the business, are incident thereto.

In other words, the capital is invested part in property, in equipment, and in goods. Amounts invested in goods, as the ownership of the goods is transferred to a purchaser, have attached to them an additional amount which is intended to compensate the seller for his expense in obtaining, making available, and handling the goods, and afford him a margin of profit. Thus, by carrying into the profit and loss account the sales price of the goods on one side, with the cost of the goods and the expense connected with obtaining, handling, and disposing of them on the other side, the amount of profit is, by a balancing process, ascertained.

But the property and equipment in which some of the capital was invested wear out, and the capital would thus become depleted were this factor not to be provided for. Hence, by making such provision out of profits the profits are reduced. Again, some of the capital invested in goods or in property and equipment may have been borrowed, and interest must therefore be recognized as a factor which affects the profits. On the other hand, some of the goods may have been sold on a basis of time, and there is interest to be collected and treated as an offset to the interest paid for money borrowed.

Out of this rather intricate mass of influ-