University of Mississippi

eGrove

Haskins and Sells Publications

Deloitte Collection

1925

Certifying and not

Anonymous

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. 08, no. 05 (1925 May), p. 34-35

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.

Certifying and Not

SURPRISE is sometimes expressed that accountants give their approval and certify to published statements, the form of which is at variance with the generally accepted ideas on that subject. Critics have gone so far at times as to accuse accountants of lending their names to statements which literally were not true. Probably every practicing certified public accountant has had the experience of attaching his name to a statement that he would have changed materially in form could he have given expression to his own ideas in an untrammeled manner.

A published financial statement of a given corporation is a statement prepared and issued by the corporation in question. Hence, it should not be considered strange if the financial or other officials of the corporation seek, in preparing the statement, to express in their own way the financial affairs of the corporation. The accountant may approve it or not, as he sees fit.

Often the advice, suggestions, and guidance of the accountants are sought in the preparation of published statements. Sometimes such aid is neither sought nor accepted when offered, and what amounts to an ultimatum is necessary to further progress in the issuance of a statement with certificate attached.

The policy of accountants generally, however, is to accede to the wishes of clients in matters of statement form as long as the statement is not so constructed as to be misleading. Whether a reserve for depreciation is deducted from an asset account or shown broad is a matter of small concern if there is a reserve and it is made to appear with proper description on the balance sheet.

Accountants individually may have their own notions on the subject of locating depreciation reserves and other equally moot questions. Readers of statements may have certain personal preferences, and even deep convictions. Yet no one who reads a balance sheet with the reserves treated either way is justified in claiming to have been misled about them if they are adequately described.

There is no necessity for going to war, so to speak, with a client who has ideas of his own and wishes to express them in his published statements if that procedure does not obscure the facts or offer opportunity for anyone to be misled. There is no reason for refusing to certify because the form of statement may differ somewhat from the accountant's concept of the ideal.

A statement is correct if it discloses the facts. The order and manner in which the facts are arranged are likely to have a very decided bearing on the ease with which the statement may be read and understood. If some one, in whose hands the power rests, chooses to set forth the facts in a statement so that they are not as easily understood as they might have been had they been arranged differently, the good faith of the accountant need not be questioned because he certifies to the statement.

When an accountant permits an item of importance to be classified as a current asset, when there is no chance of its realization within a reasonably short time, he is open to criticism on the ground of lending his approval to a misleading statement. When an accountant winks at sleight of hand manipulation at the close of a fiscal period in order that readers of the statements may be deceived by a condition which changes with the dawn of the day following, he is not faithful to the trust which his title implies.

There are some cases, however, which may be called border line cases. These are cases where certain items do not follow strict theory in their presentation in statements. For example, the recovery of taxes paid in prior years finds no good accounting theory which will permit the deduction thereof from tax expense of the current year. Yet no one will be deceived

if the tax caption in the income statement is qualified parenthetically to show that the tax expense, as it appears for the year, is after the deduction of recoveries applicable to prior years.

A situation of this kind in a published statement may excite wonder as to the theory which prompted the set-up. The procedure may be questioned on the basis of sound theory. It may be criticized as poor policy in the light of future comparison, particularly since probably there will be no future recoveries of a similar nature. Any one who wishes may fret and fume at the violation of good form. But no one is going to be misled.

In a recent case some criticism was directed at certain accountants because of a published statement in connection with which their names appeared. It was one of these "giving effect" affairs which have been the subject of considerable discussion and have had the benefit of consideration and recommendations on the part of a committee of the American Institute of Accountants.

The case in question was one in which an entire issue of bonds and entire issues of preferred and of common shares, both without par value, were issued by a newly organized corporation to a banking house in exchange for the net assets of a predecessor corporation. The bankers then sold the bonds and the preferred shares to the public, giving as a bonus with each preferred share one share of common stock.

The corporation proceeded, by resolution, to assign a stated value of one dollar per share to the preferred shares and of ten cents per share to the common shares. The net asset equity taken over by the new corporation being represented, in part, by new bonds issued and by outstanding shares of stock at stated values, the remainder became capital surplus, or surplus acquired rather than earned.

The objection which was raised had to do with the representation made on the balance sheet as to the preferred stock. This stock, carried on the balance sheet at one dollar per share, according to the terms of issue, is redeemable at the option of the corporation, or in liquidation, at one hundred and five. Hence, the point is made that any one reading the balance sheet put out will get the impression that only one dollar per share is necessary to take up the preferred shares before determining the common shareholders' equity, whereas, one hundred and five dollars per share must be paid out before common shareholders would be entitled to anything. It should be said, in the interest of clarity, that no mention was made in the balance sheet of the redemption value per share.

This case is one which perhaps is open to debate. The balance sheet was in accordance with the facts. The values assigned to the shares were fixed by the directors under authority derived from the charter. Whether or not the balance sheet was misleading because no reference therein was made to the redemption value doubtless is one of the questions which experience in dealing with preferred shares having no par value will solve. There seems to have been no reason in this case why the certification was not entirely appropriate and in good form.

Family Property and Earnings

BEFORE the days of modern corporations, the Smith family owned and worked a certain farm. As the sons advanced in years Smith Senior bought contiguous farms and the sons individually assumed the responsibility for operating various units, but the property remained in one group and the earnings were pooled.

The Jones family nearby, but with property extending in a different direction, developed the farming industry in a manner similar to that of the Smiths.

Later a certain valuable farm became available and was purchased jointly by the