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Arbitration vs litigation

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one should exist between total current assets and total current liabilities. Applying the "acid test," they have determined further that a business, in order to be a good credit risk, should have its demand liabilities covered by quick assets—cash and receivables—of approximately the same amount. After eliminating receivables, they have found that in a normal situation cash generally should be from twelve to twenty-five per cent. of demand liabilities.

As in the case of all other ratios accepted as standards in analyzing financial statements, those involving cash are subject to variations in different lines of business. However, a ratio of cash to demand liabbilities of approximately twelve to twenty-five per cent. may be accepted as the normal situation, and deviation therefrom should be cause for investigation.

The business aspects of cash are of equal importance with its accounting and fraud aspects, and are deserving of the same consideration on the part of accountants and business men.

Arbitration *vs.* Litigation

A RECENT edition of a New York newspaper carried the story of an interesting litigation which has been before the courts for many years. The case involves the title to a valuable parcel of real estate located in New York City. According to the story, as reported in the newspaper, there have been no less than twenty-two actions and appeals in the suit, tried by courts of all degrees, ranging from the municipal courts of the City of New York to the Supreme Court of the United States. The original parties to the suit have been dead for many years, but their heirs still carry on. The present reappearance of the matter is due to a motion to revive the question of the summary proceedings decided against the plaintiff thirty-four years ago. It is interesting to speculate on the probable costs which already have been sustained in this lawsuit; and to wonder if a point will not soon be reached where the costs will exceed the principal involved at the beginning.

Quite probably this is an exceptional case. However, litigations spread out over a period of years, involving numerous actions and appeals and pyramided costs, are reported so frequently as to prove that they are by no means as scarce as the proverbial hen's teeth. The resulting waste of time, effort, and money is apparent. To avoid situations of this character, application of the principle of arbitration to many business disputes is being widely advocated and successfully effected.

Arbitration may be defined as a legally recognized method of settling differences between business men without ordinary litigation. Decisions are obtained by the submission of facts to one or more arbitrators, whose award is binding and legally enforceable.

The laws of most of the states for many years have contained provisions recognizing the principle of commercial arbitration in one form or another. In most cases, however, these laws have had limited application, and have precluded the fullest realization of all the possibilities of arbitration.

Several of the states have enacted comprehensive modern arbitration laws within the past few years. Legislation is pending in other states. A Federal arbitration act went into effect on January 1, 1926, relating to "maritime transactions" and "commerce among the several States or with foreign countries." The Federal act, as well as the newer state laws, makes valid, irrevocable, and enforceable, a written provision in a contract to arbitrate any dispute that later may arise thereunder, as well as a written agreement to arbitrate an existing controversy. Agreements to submit dis-

putes to arbitration obviously are optional, not compulsory. If entered into, however, they are irrevocable and enforceable at law.

An arbitrator usually is chosen by the parties to the dispute. Under the approved laws he has the power to subpœna witnesses, compel production of books and papers, and in almost all essential respects, to exercise the same authority with which a judge is clothed in the conduct of a trial. However, he is not bound by rules of law or of evidence, nor by precedent. Each side is permitted to tell its story in its own way.

Both parties to the dispute must abide by the decision of the arbitrator. An award can be vacated only if procured through corruption, fraud, or other undue means, or if partiality, misconduct, or excess of power on the part of the arbitrator can be proven. An award may be modified, however, to correct an obvious miscalculation of figures or a mistake in description.

Arbitration usually results in quicker settlement of a dispute than litigation. It avoids the congestion of the courts, the delays incident to trials, and the inconvenience of meeting court engagements. Usually it is far less expensive. Hearings are held in private, and consequently there is no publicity.

Arbitration is not a rival of recourse to the courts. Its greatest usefulness arises in commercial disputes in which the settlement depends largely on an impartial inquiry into the facts of the case, and particularly in controversies involving quality of goods, trade customs, etc., which call for a technical knowledge that is not possessed by the ordinary jury or court.

Public accountants have been active in the arbitration movement. The American Institute of Accountants, through its Bureau of Public Affairs, has issued two letter-bulletins dealing with arbitration. The later of the two, issued in January, 1926, sets forth as follows the duties of public accountants in this connection:

"*From Public Service Point of View*

"*First*

Support in enactment of arbitration laws in many of the states.

"*Second*

Assistance in setting up local and trade arbitration tribunals.

"*Third*

Advocacy of use of arbitration, for settlement of business disputes, whether intrastate, interstate, or international.

"*From Professional Point of View*

"*First*

Service as arbitrators, when needed by arbitration tribunals.

"*Second*

Preparation of facts for the arbitration of cases, through investigative, auditing, or other accounting work for clients."

Several members of our own organization have assisted in this movement. Mr. Sells was an ardent advocate of commercial arbitration. The peace plan which he proposed during the early stages of the World War involved the application of the principle to international affairs. Mr. Dunn has served as a member of the Committee of Accountants, of the Arbitration Society of America. Mr. Wildman is chairman of the New York State Society of Certified Public Accountants' Committee on Arbitration. Mr. Pearce C. Davis, manager of our Seattle office, has advocated arbitration in Washington. He is the author of an article on the subject, which appeared in the publication of the Washington State Chamber of Commerce last year. Undoubtedly others of our number have made contribution to the cause. It is a worthy one.

Removal of Executive Offices

On May 1, 1926, the executive offices were moved to 30 Broad Street, New York. The New York Thirty-ninth Street practice office will remain at its present location.