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put in a fair light before the public those institutions which are entitled to the credit for the great commercial development of this country.

"Many corporations issue printed annual reports, and some of them are published in the daily papers in abbreviated form. All corporations should issue full reports to their stockholders and should publish them generally for the enlightenment of the investing and voting public.

" . . . But to obtain these results, full publicity will be necessary and the public will have to be satisfied that the figures contained in the publications are accurate."

Our great corporations are coming more

and more into a realization that publicity of their financial affairs, in the form of certified balance sheets and profit and loss statements which are intelligible to the public is good rather than baneful in effect. Although many corporate reports at present omit certain essential information, and there is lack of uniformity, there are signs of steady improvement.

Encouraging results are being achieved by voluntary action on the part of the corporations. The wisdom of such action is apparent to corporation officials who are intelligent and thoughtful. It should not be necessary to invoke governmental authority, as has been advocated recently.

Accountancy In Germany

BY E. A. KRACKE, *Resident Partner, Berlin, Germany*

WHEN I began to revolve the topic of this paper in mind, the question of where to begin presented itself—whether with accountancy as a science or with accountancy as a profession—and the answer came naturally enough, begin at the beginning; in other words, the description of the creator explains the status of the creation. Briefly stated, the profession in Germany has not attained, either in point of the respect it commands on the part of the general public or its record of professional or technical accomplishment, the status it has reached in America. But I believe I can truthfully say that the individual members of it are aware of its shortcomings and desirous of making progress. I stress the individual members because in my view, the most serious trouble with the profession lies in the form of organization or affiliation of the organized groups engaged in active practice. By far the bulk of the practice is in the hands of corporations which are owned by, and therefore subservient to, the financial institutions of the country. This proprietary relationship, of course, robs the practitioner of that independence

which is vitally necessary for professional progress; it subordinates him to the views of those in financial control of many of the country's industries, and has brought about the existing condition in which published financial reports do not command the degree of confidence that they do with us. Freedom of effective expression of thought is vitally necessary in any business relationship if progress is not to be hindered. I have a very optimistic confidence, however, in the mental calibre of the men engaged in the practice of the profession in Germany as well as of those who labor in the field of accountancy instruction. I believe that, with the example before them of what has been done here as well as in Great Britain, they will measure up to the task confronting them.

Coming to the phase of the subject dealing with accountancy as a science—or perhaps it would be better to speak of it as an art, since it relates to the application of accounting principles in corporation practice—we find an interesting situation. As far as concerns the detail work, it is in the main very well done. Books are well kept and particular stress is laid on their

orderliness. It is a rare thing to find books out of balance. Original entry records are improving, thanks to the eager adoption of columnar records—which are invariably termed “American” journals. The system of cash disbursements is, to the American, cumbersome, but that is another story. It rests for its solution with the banks, and I am not without hope that some day they will make as full use of the check payment system as we do. Great care is bestowed on the detail accounting for inventories, and generally speaking, good records are kept and capable control is exercised over stores. You will agree with me that when you find in a large concern employing over 15,000 employees, the physical inventory reflecting a difference from the book inventories at the end of the year, of less than one tenth of one per cent., it shows exceptional control of details. Cost records also, in general, are well kept; in fact, they are usually so accurately kept that although they are not, as a matter of accounting procedure, directly coordinated with the financial accounts, they can be satisfactorily reconciled therewith, when one sets himself about the task of doing it.

The science of journal entries, however, comparing their situation with ours, is backward. A journal entry encompassing an involved situation, that sets forth the whole story clearly, is a thing of beauty and a joy forever; but over on the other side, the explanations that one so frequently finds of record are, alas, disappointingly short of fullness and clearness, necessitating much in the way of oral interrogation approaching sometimes almost the extent of a cross-examination.

Conspicuous by its absence in large industrial organizations is that type of voluminous analytical operating information which over here we find in the best regulated organizations in the form of current internal reports with the details tied up to the operating results disclosed

by the books. There is frequently a mass of statistical data, which, however, lacks a clear connecting link with the financial accounts.

But the greatest void that one observes, in a comparison of their methods with ours, is the consolidation of parent and subsidiaries in the balance sheet and income account. Germany—and, generally speaking, Europe outside of Germany too—does not know the consolidated balance sheet. I know of no one thing that struck me more forcibly than this. I had almost taken it for granted, before I went to Europe, that some progress in this direction had been made, but I was wrong. And this void exists in the face of a complicated development of subsidiary company relationships almost to a degree comparable with ours. That development took on a particular momentum immediately after the war, when in the more and more rapid decline of the paper mark, it was a case of “any port in a storm”—any outlet for converting paper currency holdings into some kind of property whose definite value was not expressed in that currency. Real estate, plant additions and machinery, and corporate stocks were, of course, the principal lines of such investment activity; and if the limit within any stretch of reason had been reached in the upbuilding of one’s own plants, in the scramble to salvage something from the fall of the mark, why there was nothing to do but look for “other worlds to conquer,” and that meant the acquisition of other corporations.

In this process the tendency has been along the line of the so-called “vertical” trust formation, as distinguished from that designated as “horizontal.” The former aims to follow production from the elementary raw material to the final manufactured article—from the ore in the ground to the door of the ultimate consumer. The latter aims to combine concerns more or less in the same general line. But in the process of

vertical formation, to carry the geometrical metaphor along, some concerns went off on a tangent, and we find metallurgical enterprises having subsidiary textile or hotel or newspaper ventures, like a hen with a brood of ducklings. To add to the diversity, these subsidiary companies are usually held in varying degrees of stock control, and in any one group, only a few months of the year are slighted in the designation of the fiscal year closing. You can appreciate, then, what it means to unite a number of such concerns in a balance sheet and income consolidation, and yet it must be done, if a proper picture is to be painted.

As I said before, up to the present no effort has been made on the other side to present consolidated accounts, but you can hardly conceive of anything more vitally necessary than this very consolidation. I have had bankers and financial experts agree with me that some of the failures of the last few years might have been averted if the true condition had been revealed in time by a consolidated balance sheet. Receivables from subsidiary companies that in the last analysis represent assets in the ground, do not furnish the wherewithal to pay maturing liabilities. I believe the spread of the American consolidated balance sheet in Germany, now that it is introduced, can be accepted as a foregone conclusion.

There is much to be done in Germany in respect of what I may call balance sheet refinement, and, with respect to the income account, of the application of a more rigid measure of what current earnings are. The ordinary published balance sheet is not at all satisfactorily informative. No attempt is made to set forth the current working capital position. As a matter of fact, there are no expressions in the everyday language of business for current assets and current liabilities within our meaning; and consequently any attempt to discern a ratio reflecting the solvent condition from

such figures is futile. The balance sheet value of the inventories is frequently much understated, whether through book reserves or resort to the not uncommon secret reserves in the prices used for the purpose. The receivables will often include such items as investments that by no means represent current funds, as well as construction work in progress, and other accounts that may have no better reason for inclusion under this caption than that they have a debit balance. The liabilities as stated, on the other hand, not infrequently harbor considerable sums of pure reserves.

When, on top of all this, you are informed that the plant property valuation is but a part of the real value, due to drastic charge-offs of one kind or another, it is little wonder that you are discouraged in the effort to read the facts from the published data.

The income account has its failings also. Items that we have long since learned to express in the accounts on a basis of accrual, such as interest and taxes and insurance, are over there treated as expenses when they are paid. Inventories, because of the understatement I have mentioned, distort earnings because no consideration is given to the relative increase or decrease in the understatement. Depreciation is handled unscientifically—it is usually charged off directly from the plant accounts, while the renewals and replacements as made are charged to operations along with substantial amounts of additions and betterments.

Some philosopher in a fit of pessimism, some time ago, gave currency to the doleful utterance that life was just one anathematized thing after another. I would like to take that for a text, and wringing some of the pessimism out of it, say, "Life is just one paradox after another." Take the whole inflation episode in Germany. What a tragic paradox that the country which, centuries ago, gave Gutenberg and

the inestimable boon of the printing press to civilization—an event which ranks in the forefront of the agencies that ushered in the light after the dark ages—what a paradox that that country should see its whole economic structure crash to ruin in the wild excesses of that invention.

I confess that in the beginning of my stay on the other side, I attempted to make something out of these wild figures—amounts that extended themselves to take in both columns of a ledger page, and went even beyond that, but I soon learned the futility of it. I mention this episode of the inflation, because, along with the preceding arduous years of the war, it undoubtedly is one of the reasons why little progress has been made in matters of accounting in the last decade—a period in which our own progress in the sphere of accounting has been marked.

Let me give you another paradox—it is the curse of labor shortage with which this country has been periodically afflicted over the last century, turned now into a blessing, or turn it about the other way, Europe's former boon of plentiful labor turned now into an affliction. America is today enjoying unprecedented prosperity. Some people say "war profits." That, to my mind, is wholly untrue. America is where she is today largely because she is now reaping the benefits of her labor saving inventions, and labor saving devices and labor saving methods. It is no accident that the harvester and the grain binder were invented in America; it was necessity—labor shortage on the farm—mothering the invention. Take other similar inventions—the story of the last hundred years is much the same.

Go with me to see some of Germany's splendidly run, immaculately kept factories. Efficient, you would say, from the appearance of things. But here is the paradox again; efficient, except for the lavish use of labor, which seemed cheap and therefore was not conserved. Con-

trast the results—four men there engaged in one division of an electric manufacturing company producing as much as one man here; and if you are not enough impressed, look at the automobile industry, which has an output ratio per man, as compared with ours, of about one to seven. Then inspect the works in a certain division of a concern engaged in the metallurgical industry where twenty-five pairs of hands produce as much as one pair of hands over here. Cheap labor used to be a blessing there—labor shortage a curse here. Times have now changed, and in that changing you have largely the answer to the query of America's prosperity today—envied of Europe, but well earned and well deserved. But here, too, changes are under way, and, in Germany, at least, you will find frank acknowledgment of America's leadership in this regard, coupled with a growing determination to profit by our example.

In the field of accounting this adoption of labor saving devices is making marked headway. These devices are always referred to as American, which indeed they are. Adding machines have, of course, been in use for a considerable time, as have also calculating machines. Machine bookkeeping is making rapid progress—it is already widely in use by banks; and the tabulating and recording machine is likewise coming into favor.

The advent of the American certified public accountant in Germany came about naturally enough, with the rising tide of American investment in that country. The German accountant, not possessing a knowledge of the American banking viewpoint, naturally could not give the American banker the information he needed, and the appearance of the American accountant was, therefore, inevitable. But the future activity of the American accountant in that field, I am confident, will largely be along the line of spreading the gospel of American methods. In that

activity, the good that will result to German industry does not imply any corollary of harm to American industry. We have, I am sure, fully discarded the notion that what goes to increase one nation's prosperity must of necessity injure another's. The problem of the world today is not to stifle legitimate commercial competition between nations, but basing that

competition on intelligent comprehension of facts, to build up the buying power of the world's consuming public. In that process, in the enabling of all mankind to raise its standard of living—which is what the increase in the consumer's buying power means—lies the real solution of international amity and domestic contentment.

Quarterly Audits

THE New York Stock Exchange has long adhered to the very laudable policy of making available to those who desire to buy or sell corporate stocks and bonds, all information possible concerning the financial standing of the corporations whose securities are listed on the "big board." A sincere effort has been made to secure the publication of all material facts, for the benefit of the investing public.

Companies enjoying the privileges of the Stock Exchange must agree to submit financial statements periodically. Until recently these statements have been rendered annually in most cases. During the past few years, however, the Stock Exchange has been exerting its influence in the direction of obtaining financial statements at more frequent intervals.

A number of corporations—particularly those whose securities have been listed recently—have entered into an agreement with the Stock Exchange to make public quarterly statements of financial condition and earnings. The number is increasing constantly. Early last summer the Stock Exchange addressed a letter to all corporations represented on its board who had not made such an agreement, with a view to securing their cooperation in this respect. The letter said in part:

"We are impressed with the insistency and the character of the public interest in this question, and we believe that you would be rendering a real service to the business world at large by placing yourself

alongside of the ever-increasing number of corporations who have decided to make information in regard to their affairs more frequently available to their shareholders."

There can be no doubt as to the general desirability of such course. Complete and trustworthy information regarding the financial affairs of corporations whose securities are widely dealt in, should be made available to the public at frequent intervals. Only then can our great exchanges perform their proper function in making true prices for the securities to which they supply a market. This is particularly true in view of the large number of corporations whose securities are active, and the many kinds of securities offered. The need is the greater because of the wide participation in corporate issues on the part of the small investor.

Frequent rendition of financial statements perhaps would accomplish something towards lessening speculation and diminishing exploitation of the uninformed by insiders. Considered from the point of view of the public, speculation is an evil because it tends to distort the picture and to set a false price not based on values and earnings. There are instances in which those on the inside of a corporation's affairs have used to the disadvantage of the public, news concerning the company which was not known to the latter. These malpractices thrive in the dark. As more light is let in, they tend to disappear.