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Elijah Watt Sells (1858-1924)

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CERTIFIED QUARTERLY STATEMENTS

ADVOCATED for CORPORATIONS

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Certified Quarterly Statements
Advocated for Corporations
By Elijah W. Sells, C. P. A., M. A.

The official records for 1912—absolutely correct in dollars and cents—show that thirteen railroad companies, having 3,762 miles of track, were placed in the hands of receivers. The total funded debt of these failures aggregated $106,964,497. The foreclosures in steam railroads represented twelve lines with 661 miles of trackage; a funded debt of $7,995,300, in addition to a stock indebtedness of $17,925,090, a combined total of $25,920,390.

This record, not including the liabilities of business failures, which amounted to $197,995,457 in 1912, summed up lost hopes to the extent of $207,378,887, a staggering situation for a year supposed to have been dotted with phenomenal progress. In certain quarters it is said that the records for 1913—now being compiled in several financial centers of the United States—will show even greater losses. The psychological depression of business which the chief executive of the country has uttered best expresses what the people may expect in the shape of a report for 1914.

The large industrial enterprises, sooner or later, will realize that the investor must be furnished with proof of the operating results before a funded debt can be created. Among the more progressive bodies a movement has been started to issue quarterly reports instead of yearly statements.

The certified public accountants generally are advocates of the quarterly report idea. The financiers of international repute are
convincing of the practicability of the movement, and the bankers are now advocating complete publicity along these lines.

Unless the corporations adopt the system of four reports each year of their own volition, it should be the duty of the State wherein the corporation has been chartered to compel this system through legislative enactment, and this law should be especially passed for the benefit of the investing public. It is pleasing to say at this time that a few of the more progressive corporations have voluntarily adopted the system.

National banks, State banks, and trust companies are compelled to render statements to the Government and State officials at such times as the officials see fit to make their "calls," and this occurs about five times each year—and the date of the call is never known by the banks. Many of the important concerns which are great commercial bodies operating under State charters sit snugly back in their offices and await what is termed "the close of the fiscal year" and then report under their own seal, if necessary.

The general feeling among progressive officers of corporations is that the future success of new enterprises and the continued progress of less established corporations depend upon their ability to interest the investor. When the present great concerns were in their infancy the theory upon which a majority of them were conducted rested on the fact that the stockholder accepted his dividend and said nothing. If, perhaps, the holder of stock was not particularly impressed with the management he had the right to sell out. Of course, many corporations conducting their business along honest lines had due regard for their stockholders and used every method to please along conservative measurements.

During the past half decade, however, a great wave of distrust has swept over the country, and at once the investor began to watch every danger signal that was unfurled. The muck-raker with his vitriol pen, the
Wall Street writer with a grievance, the State investigations, scandalous magazine exploitation of the so-called trusts, and a thousand other factors have been the means to call a halt to the operations of the corporations that deemed it important to withhold facts and figures against the public. Instances have been given publicly showing gross carelessness in the management of certain chartered bodies; and the alleged proofs were furnished by writers of the muckraking, showing stock that had been seasoned with water, pepper, and salt. But the writer of these stories—call them articles if you will—took special care not to mention the thousand corporations where careful stewardship resulted in an enormous business and which reflected credit to the nation.

The quarterly report, which should be compulsory, showing as it will the resources and liabilities, and the operating results, will do much to enlighten the public. It will bring about stable markets for negotiable securities. The quarterly statement should be issued by every public utility company, telegraph company, navigation corporation, municipal body, and every other interest having a stock or bonded indebtedness. It should be the province of the Government to demand this condition. The salient facts of a business enterprise of great proportions, and where the public is virtually part owner, has the right by moral law to demand an exhibition of earnings certified to by a competent and trustworthy certified public accountant.

Back in the days of the Phoenicians many good-sized corporations were in existence. Even during the reign of Pharaoh, Joseph created the first idea of the modern so-called trust. He cornered the food supply of Egypt to such an extent that the natives had sufficient for seven years. Thus, in the seven fat years, Joseph had the forethought to stock the storehouses for the lean years to come. The yearly report was admirably suited for digestion in those days. If the holder of corporate parchment failed to agree
with the hieroglyphics printed thereon he promptly disappeared from the face of the earth. Perhaps the bond issue was wielded in such a manner that its force overwhelmed him. Then came the Roman period, and they, too, believed in the yearly report; so did the Dutch traders. The yearly report was issued every 365 days, because it was impossible to reach the public in better time. But to-day, with the wonders of modern invention and ingenuity at every hand, there is no excuse for so tardy a report as the annual one. This is a progressive age. We no longer can follow the tendencies that swayed the days of Rome. Even in those days the reports were more informative than those issued by some of our corporations of the present era.

Captains of industry in the days of long ago lacked the facilities of the present day, but they recognized and acknowledged the principle that shareholders who contributed money to make a venture successful were entitled to the speediest possible information as to the progress of the undertaking. Following this lead to its logical conclusion, it is obvious that the spirit of initiative and enterprise which prompted the early corporations were entirely in favor of the quarterly report if it were possible. But time would not be annihilated as it is to-day through modern invention.

The world is traveling twenty times faster than it did three centuries ago. It is not too much for the shareholder to ask four times each year how his company is progressing. When this is done by the large corporations it will inspire trust and faith and will open avenues for greater business. The investor is entitled to a financial report. When a new stock issue is brought into the market the statement should be made in the official call for subscriptions that “This company, by a vote of its board of directors, will issue quarterly reports of its progress, showing facts and figures which will be certified to by a reputable public accountant.” The quarterly report idea is gathering momentum; it is
moving steadily ahead; its success is inevitable. A decade ago the originator of such a prophecy would have been considered mentally deranged. In 1924 it will be a source of wonder that the custom was not adopted fifty years ago.

In the march of present events the business world has no excuse for being six laps behind the 365-day cycle. My suggestion is open for argument, and who will deny the fact that the quarterly statement certified by certified public accountants of acknowledged ability leaves room for the entrance of deception of any kind? Honesty in business enterprise is an American desire—honesty to the investing public is demanded by the courts of law. The quarterly report can do more to create this state of affairs than all the mediation meetings that can be held. Whether a security is known as a first mortgage liability, or a trust lien, or a debenture bond, or any of the other hundred and one terms—the fact remains that it is an obligation of the company making it and nothing more. Now that the courts have granted the realty concerns the right to issue and sell bonds, although not chartered under the banking act, but chartered as a business organization—what is to prevent other business organizations from immediately offering securities of similar nature? But why should the investor be asked to place a single dollar without first having the certified statement from the expert who diagnoses the earning capacity, etc.?

The publicity of the quarterly statement will mark a new epoch in American industries.