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Publicity of financial affairs of corporations; Should advertising expenditures be charges as an investment or as an expense;

Elijah Watt Sells (1858-1924)

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Elijah W. Sells, the senior member of Messrs. Haskins and Sells, well known public accountants, strongly advocates advertising the financial affairs of all public corporations. **Expert in business affairs gave expression to many interesting ideas concerning the standing of corporations with the public and says with good reason. THE COMMERCIAL AND FINANCIAL CHRONICLE, New York.

If the affairs of the large corporations were made known to the voting masses the public would not be so readily mislead by the unscrupulous attacks of politicians. ***

THE GLOBE, Boston.

A new means for securing better relations between corporations and the public *** Elijah W. Sells, a Certified Public Accountant. His general idea was that proper advertising of the affairs of corporations would place them in a truer light before the public, and serve to alleviate the stigma of political attacks.

EVENING TELEGRAPH, Philadelphia.

Mr. Sells, of Haskins & Sells, the great international firm of public accountants, an expert chaser through the books of corporations and business organizations generally give him superior standing as a man permitted to express his views on this subject.

GLOBE, New York.

The address is considered the most important that has been delivered before the advertising men.

DAILY TRADE RECORD, New York.

Sees Eden's Serpent as First Advertiser. Boosts Apples to the Mother of the Race. Urges corporations to take the public into their confidence—then both would profit. Mr. Sells is one of the best known public accountants in the United States and Great Britain.

EVENING POST, Chicago.

That is right Mr. Sells. There is nothing like publicity for all things. If corporations were to take your advice it would be beneficial to them and more satisfactory to the general public.

STAR, Long Island City.

They hear from E. W. Sells, an expert of Haskins & Sells, Certified Public Accountants of New York, London, Chicago, St. Louis, Cleveland, Pittsburgh and Baltimore. He gave conclusive reasons.

EVENING TRANSCRIPT, Boston.
Publicity of Financial Affairs

OF

Corporations

SHOULD ADVERTISING EXPENDITURES

BE CHARGED AS AN INVESTMENT

OR AS AN EXPENSE

BY

ELIJAH W. SELLS, C. P. A., M. A.

An Address
Delivered Before the Convention of
Associated Advertising Clubs of America
Boston, August 2, 1911
Publicity of Financial Affairs

OF

Corporations

Should Advertising Expenditures be Charged as an Investment or as an Expense

Advertising is as old as man and dates back to that time when the serpent in Eden advertised successfully to our common ancestress the peculiar beauties and merits of his fruit. However interesting it might be to trace the development of advertising from that date through the period when the Greeks and Romans employed street criers to advertise losses and sales, and pictures on walls to advertise gladiatorial contests and other public spectacles, down to 1704 when the Boston News Letter was established, which paper contained the first known newspaper advertisement in America, and the rapid growth of this form of advertisement from the establishment in the first half of the Nineteenth Century of important newspapers in New York, Philadelphia, and Boston, down to the present time when the annual output of publications containing advertising matter attains the enormous sum of thirty-five hundreds of millions, for which it is estimated that hundreds of millions of dollars are paid, and to further trace the development of the profession of advertising from its inception as a science in
1840 by Palmer of Philadelphia down to the comprehensive advertising organizations of today, it would hardly be appropriate or necessary in a paper dealing with the problem of the position which cost of advertising should occupy in the financial statements of a present day business.

It is not for a Public Accountant or indeed anyone to make the broad assertion on the one hand that Advertising is always an asset to be carried in the balance sheet of a business concern as an investment, or on the other hand that it is always an expense to be taken care of through current operations. It is necessary to know the facts and conditions under which the advertising was done, and the relation which those facts and conditions bear to the capital employed or to be employed.

Advertising has many of the characteristics of ordinary commodities of trade; it may be bought and sold and has a certain definite value aside from that of the material and physical labor of which it is composed and, according to its application, as is the case with any other commodity, may, with propriety, be carried as an investment in the balance sheet of a going concern. It differs, however, from other commodities in that the benefits to be derived are limited to the advertiser, and cannot be dissociated from the particular thing or business advertised and as such disposed of to another, in which respect it is identical with good will. And just as opinions and policies differ as to the extent to which good will, patents, and kindred things should be regarded as an investment, they differ as to advertising. But if it can be shown that a going concern has something of real value in its good name and good will, something that could be realized upon in any disposition of its business and upon which
as an investment it is receiving satisfactory returns, there should be no objection to treating it as an investment and the same argument holds true of advertising which for the purpose of this illustration is a component of good will.

A person, firm, or company, at the outset of an undertaking which has something to dispose of not previously known to the public, or for which superior merit may be claimed, should undertake to provide sufficient capital not only for plant and working materials but for advertising, in order to adequately bring to the attention of the public the merits of that which is to be disposed of. In such a case, the amount so provided and spent might with all propriety be considered as an investment and carried as such in the balance sheet, and in any disposition of the business would have a good will value depending upon the returns of the business. On the other hand an old and established business, such, for instance, as a mutual assurance association, would not be justified in, or have any reason for, carrying as an investment the expenditures which it might make for advertising, for, as such, it is not an asset which could be realized and distributed; it has no place as good will value to the association whose business could not be sold; it is not a thing for which new capital could be raised, and so it would not be practical to consider it as an investment.

Generally speaking, such advertising as may be done for the purpose of bringing some new business or branch of business some new or improved article or articles to the attention of the public, which has a direct effect in creating or measurably increasing the good will of a business undertaking, may be considered as an investment in that there has been an appreciable
increase in the amount of capital employed; such advertising as may be done to maintain a normal distribution or to keep the name and nature of a business before the public or for the purpose of calling attention to special temporary prices of articles, while having some effect upon the good will of the business, should not require further capital and should be provided for out of its current operations, in other words, should be considered as an expense.

Between the extremes, say of a newly started proprietary medicine business, the principal asset of which might be its advertising, and an old established mutual assurance association with no asset of that nature, would fall all the other undertakings which advertise, or depend in any degree upon publicity for the marketing of what they have to dispose of.

Given the purposes and conditions of the advertising and the general policy of the management of an undertaking in regard to such expenditures, its correct classification as an investment or an expense is not difficult to determine. But frequently it is difficult to ascertain the purpose, the conditions, and the policy upon which to determine the application, as between investment and expense, of the cost of advertising.

Publicity of Financial Affairs of Corporations

RECOGNIZING, as any one must, who sees the daily papers and the current magazines and kindred publications, the strides that have been made in the science of advertising in latter years, and the success of advertising agents in putting their matter in such form and through such mediums as to reach the greatest
number of their possible consumers, and recognizing also the infinite and increasing variety of the things which apparently it is advantageous to advertise, I venture to suggest a new field of advertising, with a firm conviction that it will arrest attention. It is, I believe, a field which has not been entered in a systematic and scientific manner—I mean the proper and adequate advertising of the financial affairs of the corporations in which the public is interested, either directly as shareholder or indirectly through their influence upon general business conditions.

However meritorious may be advertising of the character we are accustomed to, advertising the financial affairs of corporations is of far greater public importance, especially at this time when there is so much unjust agitation against corporate affairs; and advertising agents have a public duty in this connection that can and should be performed, the effects of which should be far reaching and of inestimable public benefit.

In my experience as a public accountant, I have had to do with the financial affairs not only of practically all kinds of corporations but with those of the government, states, and municipalities, and have come in more or less intimate contact with many of the various officers and managers of all of them; and it is based upon this experience that I have formed my judgment that the managements of corporations are generally honest and, as compared with those of public affairs, more economical and efficient; that there is far more dishonesty among politicians and office holders than among corporation managers.

I also base upon this experience my opinion that full publicity of the affairs of corporations would be beneficial not only to the public but to the corporations themselves, as the actions and
investigations brought about by the public uneasiness would be largely forestalled thereby. 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. Certificates of reputable Public Accountants to be made a part of such publications will undoubtedly have an influence in attaining this end. In order that an advertising man may intelligently canvass this class of business, he should be able not only to impress the managements with the desirability of such publicity, but he should have some knowledge of the form and the amount of detail which his public will require, and with anything less than which it will not be satisfied. That the affairs of a business organization are of no concern to anyone except those responsible for its creation and continuance is sound doctrine, and may be applied to small affairs without detriment; but in this country where corporations with large affairs have become the prey of politicians to such extent as seriously to retard progression because their financial affairs are not generally understood, these corporations are confronted with special conditions to meet or mitigate which they should forego certain of their rights of privacy, and I believe they would be willing to accept the counter-effect of publicity by making known to the public the condition of their affairs in such terms as cannot be misunderstood. This refers to corporations whose securities are quoted and dealt in and in whose affairs the public is concerned.

The proposition divides itself into two essential elements:

First: That dealing with capitalization which embraces all the fixed, liquid, floating, and current assets on the one hand and
liabilities, both funded and current, on the other. In the preparation of this information, nothing should be hidden and all essential details given.

Second: That dealing with the operations which relate to earnings or sales. Beginning with the total amount of such earnings or sales fully classified, there should be shown successively the allowances thereon, the direct costs, consisting of labor, material, and incidental expenses, the general expenses, the fixed charges for taxes, interest, sinking funds, and finally the balance, if any available, and its application for extensions of the business, betterments, dividends, etc., and the remainder to be carried to the reserve, surplus, and profit and loss accounts.

These details need not, and indeed should not, disclose what are generally regarded as trade secrets—I mean by this, certain processes and trade affairs which from their nature should be kept secret and not disclosed to competitors and others.

There should be uniformity of publicity for businesses of a like character.

It is my opinion that the present day inertia of business is due more to the unwarranted agitation of the politicians against corporations than to any other one cause. If the affairs of all corporations were generally made known, the voting masses would not be misled by the unscrupulous attacks of politicians who use any and all means to attract votes.

The daily press, magazines, and kindred publications are the natural mediums through which the knowledge of corporate affairs should reach the public. The cost to the corporations of this publicity would be more than offset by the reduction in the expense of lobbying, defense against unjust legislation and
blackmailing legislators; and moreover in some cases a part of the cost of such publicity could very properly be charged as an investment while the cost of lobbying, defense against unjust legislation, and meeting the demands of blackmailing legislators must without question all be charged to expense.

It could not be said that all corporations are free from censure, but publicity would act as a restraint upon these and would 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.

When a systematic campaign shall have been organized for this class of advertising, it will be the particular province of the advertising organizations to determine the character of the publications that these financial affairs should appear in, but I venture to suggest that if, in addition to reaching the investing public through the conservative press, they are also placed in the popular newspapers, and periodicals with the large circulations, they would be such plain contradictions of many of their articles attacking corporate affairs that they would have a salient influence in a fertile field, the voting public. With no matter what skill advertising matter is prepared and with no matter how much judgment it is placed to reach the public, the maximum of good results cannot be attained if the general business of the country is abnormally depressed, and the advertising agents, as much as anyone else, are vitally interested to see
that the causes of these depressions are removed. And in removing or impairing the effect of one of the chief of them, the continual attacks on business corporations, the advertising agents stand in a position to perform a great public duty, by obtaining and giving scientific publicity to the affairs of these corporations.

If my opinion that full publicity of corporate affairs would show them generally in a meritorious light is not shared by all, at least all will agree that it would afford a means of obtaining a fairer public judgment of them, and if it did not free them altogether from the unscrupulous attacks, which seem to have no other purpose than that of pandering to the voting masses, publicity would go far toward counteracting them and it would furnish some relief to the unwarranted and unjust restriction upon the development of the resources of this country.