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Acceptances in Retail Business*

By W. G. AVERY

It is hardly necessary on this occasion to approach the subject of acceptances from an academic point of view, in consideration of the assumption that you are all familiar with that phase of the question.

The main object of this address is to show that the acceptance is a feasible instrument of credit in practically all lines of commercial business.

The opinion was expressed to me a short time ago that we in this country are starting at the wrong end in advocating its use. The retailer is the one who finances the largest number of commercial transactions and comes in contact with the buying public. If we can persuade the latter to recognize the acceptance as a medium of exchange, we shall have accomplished a great deal toward the end desired.

RETAIL TRADE ACCEPTANCES

In European countries, especially in France, the public has been educated in this idea for very many years. There the customer who buys on credit signs a slip for his purchases, which is virtually a trade acceptance. If such a custom can in time be inaugurated here, we shall have the foundation from which to work up to the manufacturer, instead of commencing with him as we now are trying to do. The simple signature of the customer to the charge slip made out by the salesman is virtually an acceptance without a due date, but we might, it seems to me, make a beginning in that way.

The thin end of the wedge thus having been inserted, in spite doubtless of strong protests amounting to almost a revolution on the part of the stronger and fairer element of the community, I do not think that the retailer himself, and then the wholesaler and manufacturer, would have any legitimate excuse to stay out.

THE FARMER'S PURCHASES

Suppose we take the case of the farmer who has been in the habit of buying his machinery on the instalment plan, with its

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increased cost to him, representing the usual addition to the price of the article for the accommodation, interest, collection charges, etc.

I think a plan could be evolved whereby he could give his trade acceptance for the full purchase price, which could be secured by a lien on the purchase and would be paper eligible for rediscount by the holder. The expense of the discount borne by the acceptor would be very much less than that of the higher price he had to pay for buying on the instalment plan. The retailer holding the acceptance would have a negotiable instrument, the proceeds of which he could use to take up the acceptance he had given to the wholesaler or manufacturer. This may sound somewhat idealistic, but a plan has nevertheless been worked out very carefully somewhat along these lines, taking into consideration all contingencies. The details would be too numerous to consider within the short time allotted here, nor am I at liberty to discuss it, as the matter was outlined to me confidentially.

SOME OBJECTIONS

Many retailers make the objection that the trade acceptance is merely a means by which the wholesaler or manufacturer finances himself at the expense of the retailer's credit. A good definition of the trade acceptance is that it is "the buyer's written acknowledgment of a current business debt, payment of which is not yet due." This definition effectually silences this objection, in that it points out that the retailer who intends to pay his bills need have no adverse sentiments about signing an acceptance, because it is merely an acknowledgment of his obligation.

Another objection often raised to the signing of an acceptance is the fact that the acceptor thereby has his name on paper which gets on the open market. This in itself should certainly be no objection, for the reason that it places the acceptor on record as agreeing to pay his obligations on a definite future date. You will realize very easily that a financial statement showing acceptances payable is regarded much more highly than one showing accounts payable. I do not know whether it is within your province to advise your clients in addition to auditing their accounts, but I imagine it does not come amiss in many cases. This being so, you have exceptional opportunities for encouraging the use of acceptances, and I therefore want to lay before you a few arguments in support of the instrument.

FLUIDITY OF CREDIT

We have to consider the subject principally from the points of view of the buyer and the seller, for the purpose of this address. These arguments are possibly somewhat time-worn, but there may be some among them that have not occurred to you. One of the main virtues of the acceptance system is that it makes for greater fluidity of credit. A merchant's entire holding of acceptances can be sold, thereby converting all his sales into liquid and available capital.

Loans based on accounts receivable are usually at the ratio of two to one, but acceptances are bought to the extent of 100 per cent., based, of course, on the financial ratings of the names submitted. While touching upon this point, it may be well to mention that it becomes necessary sometimes for a merchant to sell his book accounts or to borrow against them specifically. Companies are in existence which make a business of this, by taking an assignment of the accounts. The rate of interest paid by the merchant for this accommodation varies sometimes from 8 to 12 per cent. Not only does he obtain merely a percentage of the amount assigned, but he guarantees the payment of the accounts. In advertising their facilities, these companies are careful not to mention their rates, as compared to those for which acceptances can be sold or discounted.

DISCOUNTS FOR CASH

Heavy discounts for cash will, I think, be gradually eliminated by the use of acceptances. These discounts, as you know, run as high as 24 per cent. per annum, and are very often taken by the buyer illegitimately. Let me give you a few statistics. Among manufacturers the terms are usually 60 days less 2 per cent. for cash in 10 days. An investigation made some time ago resulted in demonstrating the fact that when bills are discounted instead of being paid in 10 days, they have averaged 15 days; and for those on which the option of 60 days has been taken, the average payment is 75 to 80 days; and at least 10 per cent. require 90 days or more.

Turning to wholesale distributors—the analysis indicated that generally speaking from 40 to 50 per cent. of buyers discount their bills within 15 days after purchase, while of those who exercise the 60 day option from 25 to 30 per cent. pay “promptly” (so-called) or within one month following the 60 day maturity.

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Of the remaining 20 per cent. only about one-half pay in the period between three and four months after purchase, while the other half pay in from four to six months, or never.

It can be readily seen, therefore, that it is better to sell on longer time with acceptances than on so-called short time with open accounts.

COMMERCIAL PAPER

As distinguished from commercial paper, the trade acceptance is more desirable in the eyes of a banker. In the first place it represents actually current transactions, the purchase and sale of goods. There are no means of ascertaining in many cases, the object for which the former is issued, and it may be simply accommodation or may represent considerably overdue accounts.

Another feature to be considered is the fact that by giving and taking acceptances a merchant is in the position of estimating definitely his financial position on a given date, thus being able to regulate his commitments accordingly.

VALUE TO BUYER

The buyer in most cases eventually becomes the seller, and it is therefore necessary for him to consider the matter from both sides. The features I have just enumerated may be taken more from the point of view of the latter, but there are others which are more or less vital to the buyer. He is stimulated to meet his payments promptly and this tends naturally to a general improvement in the management of his affairs, which in turn enhances his credit rating and financial reputation. The use of acceptances gives him a good argument in requesting them from his customers when he becomes the seller. By giving his acceptance, as stated before, he acknowledges the obligation, but that does not mean that he waives legal claim against the seller if the goods purchased are not up to specification.

POSSIBLE EXTENT OF USE

While it is a mistaken idea that the trade acceptance system is applicable to all business transactions, it is a fact that billions of dollars worth of goods are to-day being sold on open account, which could be financed by the acceptance, and this would conduce to better business methods, in that there would be a definite obligation, payable on a definite date and constituting a readily negotiable instrument. Thousands of firms are now using accep-

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tances freely, and reports are received daily by the American Trade Acceptance Council, setting forth the satisfactory experiences of many of these firms.

In Canada, as you all doubtless know, acceptances are used very freely and traded in extensively by the banks. Losses are very infrequent and experience has shown that when they have occurred, the cause has been a lack of proper care in scrutinizing the names thereon.

You are in a better position than I to be familiar with the financial intricacies of different lines of business, and, therefore, better able to judge of the feasibility of acceptances in connection therewith. It seems to me, however, that there should be very few cases in which they cannot be used.

At any rate, it is most desirable that we should endeavor to overcome objections wherever possible, as there can be no doubt that the trade acceptance will release an enormous amount of capital and at the same time place our financial structure on a sound credit foundation.