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Advertising as a Business Asset*

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

Advertising has long since passed the pioneer stage with its allegorical Garden of Eden origin; passed also long since its street-crier period with its historical Greek and Roman setting; remote indeed is its advent in our own country in 1704, when the *Boston News Letter* printed the first known newspaper advertisement in America; yet it is with keen interest we trace its rapid development from that date to its inception as a business, on down to the comprehensive organizations of today when the annual expenditure in advertising in all branches, as estimated by the best authorities, attains the enormous sum of five hundred million dollars.

When it is realized that these hundreds of millions of dollars are paid by business for this service, it is inevitable that the question, *Is Advertising a Business Asset?* assumes considerable importance to business men on the one hand and becomes of deep seated interest to members of the advertising profession on the other, so correlated is this profession with business for mutual sustenance and expansion.

Before considering the question at issue from the standpoint of the certified public accountant, allow me to digress for the moment the better to place before you his position in the business world, justifying his impartial conception of the subject at hand and basis of opinion.

Authenticated evidence of the early recognized importance of accountancy to business is shown in baked clay tablets found in Assyria as long ago as 464 B. C., while later findings reveal the existence of private accountants in the year 831. But it was not until the fourteenth century, in Italy, that double entry or scientific bookkeeping was regularly employed. In 1581 there was formed in Venice an association of accountants which came to have even more power and influence than our present day associations. Scotland shows evidence over one hundred and forty years ago of having professional accountants, and in 1854

* An address at the meeting of the Advertising Club of St. Louis, April 18, 1916.

Advertising as a Business Asset

granted royal warrant to the Society of Accountants. England early endorsed the importance of the profession which is today represented by several organizations of large membership, chief among which are the Institute of Chartered Accountants and the Society of Incorporated Accountants and Auditors.

In our own country the American Association of Public Accountants, incorporated nearly thirty years ago, is the representative national professional body and has a membership of about 1,200 made up of the members of societies from the forty states that have granted legal recognition to the title "certified public accountant."

Thus, in brief, has spread the knowledge of the capacity and usefulness of the public accountant and the recognition of the profession as a part of business. Like your own profession it has established its place of importance by its demonstration of value wherever requisitioned. Conclusive proof of its acknowledged value is indicated by the increasing extent to which the services of its members are sought by governments, states, municipalities, corporations—including railroads, public utilities, banks and trust companies, manufactories—firms, individuals, and undertakings of nearly every description, including educational, ecclesiastical and charitable.

The demands on the public accountant are various. The work in general terms embraces auditing, which has to do with the verification and proper statement of assets and liabilities and the accounts of operations, and determination of fiduciary integrity; special examinations and reports on the affairs of those engaged in every field of activity, for the most part for bankers and others interested in investments; devising and installing new systems of accounts and revising and improving existing systems; a miscellaneous class of work such as making statements of the accounts of executors and administrators and special data for cases to be litigated or arbitrated; organization of administrative and other branches of business; supervising inventories and appraisals; preparation of reports and frequently certificates relating to these undertakings; and numerous other incidental matters.

With the marvellous growth and expansion of business, its interlocking interests and intricate combinations, it is but

The Journal of Accountancy

natural that complex problems arise, but the surprising thing is that, through ignorance of the rudiments of accounting or otherwise, hopeless confusion occurs over the most simple accounting propositions, and endless controversies arise on matters as to which, when the facts are properly stated, there should be no difference of opinion.

Let me bring to your attention just one case, not wholly unrelated to our specific topic. Our income tax law dealing with the manner in which the net income of corporations, etc., shall be ascertained reads:

"Such net income shall be ascertained by deducting from the gross amount of the income of such corporations received within the year all the ordinary and necessary expenses paid within the year in the maintenance and operation of its business," etc.

In other words, the income account should be prepared on the basis of cash receipts and disbursements notwithstanding the fact that a creature of the government itself—the interstate commerce commission—especially provides that the methods to be pursued by the railroads in ascertaining their income shall not be on this basis but on the basis of income accrued and expenses incurred. Yet it does not appear that it occurred to any of our representatives in passing the bill, or to the president in signing it, that there was any inconsistency.

The point is that such inconsistency would have been apparent at once to a certified public accountant if he had had anything to do with drafting the bill. Moreover, the bill would have been logically arranged and so clearly presented as to render unnecessary the flood of rulings by the commissioner of internal revenue. Numerous illustrations could be given of cases in which points of controversy could have been cleared by a public accountant, whose decisions in matters involving the proper classification of investments, assets and income would be consistent with the purposes of the profession which, in the discharge of its functions, deals only with conditions, facts and figures. It has no place for bias, perversions, fancies, or narrow and contracted viewpoints; on the contrary, it calls for breadth of vision, discretion, tact, and diplomacy.

Advertising as a Business Asset

In determining, therefore, the position which the cost of advertising should occupy in the financial statements of a present day business, the public accountant proceeds to a knowledge of the facts and conditions under which the advertising was done and to consideration of the relation which those facts and conditions bear to the capital employed. Given these purposes and conditions of the advertising, together with the policy of the management of the undertaking, which facts are frequently difficult to ascertain, the correct classification of advertising as an asset or expense is not difficult to determine.

Let us consider when, with propriety, advertising may be carried as an asset in the balance sheet of a going concern.

It has many of the characteristics of ordinary commodities of trade. For instance, it may be bought and sold and it has a certain definite value aside from that of the material and physical labor of which it is composed. According to its application in such a case, as with other commodities, it may be justly considered as an asset. Advertising differs, however, from other commodities in that the benefits derived, being limited to the advertiser, cannot be dissociated from the particular thing or business advertised, and as such disposed of to another. In this respect it is identical with goodwill and confronts the same differences of opinion and policy as are held concerning the extent to which goodwill, patents and kindred things should be regarded as assets. However, if it can be shown that a going concern has something of real value in its good name and goodwill, something that can 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 asset. The same holds true of advertising.

Again, such advertising as may be done for the purpose of bringing to the attention of the public some new business or branch of business, or some new or improved article, and has a direct effect in creating or increasing the goodwill of a business undertaking, may be considered as an asset.

An individual, firm or company which has something new or of superior merit to dispose of should provide sufficient capital at the outset of the undertaking not only for plant and working materials, but for advertising, in order adequately to

acquaint the public with the merits of that which is to be sold. The amount so provided and spent might with all propriety be considered and carried in the balance sheet as an asset, and in any disposition of the business it would have a goodwill value depending upon the returns of the business.

When, then, must advertising be considered as expense? 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 purposes of calling attention to special temporary prices of articles, although having some effect upon the goodwill of the business, should not require further capital and should be considered as an expense and provided for out of current operations.

Take another instance, that of an old and established business, such, for example, as a mutual assurance association. Such an association would not be justified in or have any reason for carrying as an asset the expenditures it might make for advertising. As such it is not an asset which could be realized and distributed; it has no place as goodwill value to the association whose business could not be sold; it is not a thing for which capital could be raised; hence it would not be practicable to consider it as an asset, but, conversely, an expense.

Between the extremes, say, for illustration, 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 depend upon advertising for marketing their products; and for the public accountant or anyone else to classify advertising as an asset or as an expense requires, as I have aimed to point out, a thorough analysis and definite understanding of the case in hand.

In many cases, mainly for conservatism, the asset represented by advertising expenditure, goodwill, patents and kindred things is ultimately charged off and eliminated as an asset from the balance sheet, and like most things that are conservative this practice is commendable; but there is no fixed rule governing such procedure, either as to when it shall be charged off or how much at a time.

Whatever differences of opinion may arise over the question discussed, there is no shadow of doubt concerning the marvellous

Advertising as a Business Asset

power of advertising in whatsoever field it operates. In recognition of this I venture to repeat a suggestion which met with considerable interest when presented by me at the convention of Associated Advertising Clubs of America in 1911. I refer to the proper and adequate advertising, in a systematic and scientific manner, of the financial affairs of the corporations in which the public is interested directly as shareholders or indirectly through the influence of the corporations upon general business conditions.

Advertising the financial affairs of corporations is of great public importance and advertising agents have a public duty in this connection that 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 of practically all kinds of corporations, as well as with those of governments, states, and municipalities, and have come in more or less intimate contact with many of the various officers and managers of all of them. Based upon this experience I have formed my judgment of the general honesty of the management of corporations, and it is my opinion that full publicity of the affairs of corporations would be beneficial not only to the public but to the corporations themselves, inasmuch as it would forestall investigations and actions brought about by public uneasiness.

That the affairs of a business organization are of no concern to any one except those responsible for its creation and continuance is sound doctrine and may be applied to small affairs without detriment. In this country, however, 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. If such affairs were made known in such manner as could not be misunderstood, the unscrupulous, vote-attracting attacks of politicians would cease to mislead the voting masses.

It is my belief that corporations would be willing to accept the counter-effect of publicity to meet or mitigate conditions with which they are now confronted. The cost of such publicity would be more than offset by the reduction in the expense of lobbying, defense against unjust legislation and blackmailing legislators. Moreover, such expenditures, now without question

charged to expense, would assume in the light of publicity costs the high value in some cases at least of an investment.

Intelligently to canvass this class of business, an advertising man 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 amount of detail which his public will require, and with anything less than which it will not be satisfied. It is needless to say the public would have to be assured of the accuracy of the published figures. Undoubtedly an influence in attaining this end will be to include in all published reports certificates of reputable public accountants.

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 and similar charges, 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 business of a like character.

The daily press, including the popular newspapers, magazines and periodicals with large circulations are the natural mediums through which the knowledge of corporate affairs should reach the public. Such publicity would have a salutary influence upon the voting and investing public and furnish some relief to the unwarranted and unjust restrictions upon corporations. It would act as a restraint upon those corporations open to censure and would put in a fair light those corporations which are entitled to the credit for the great commercial development of this country.