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American Institute of Accountants

INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA

135 CEDAR STREET, NEW YORK

November 25, 1935.

To Certified Public Accountants,
Of the United States.

Subject: Natural Business Year Campaign

Gentlemen:

Natural Business Year Council has launched a nation-wide campaign to have the American business man determine upon and adopt as his fiscal year the Natural Business Year best suited to the requirements of his particular business.

Natural Business Year Week, embracing December 16th to December 21st, will be the culmination of this year's drive.

Accountants must be foremost in the attack upon the problem and their interests are such that they are vitally concerned.

You can render tremendous assistance in the following ways:

- 1 - Direct personal effort with clients pointing out the faults of an improper fiscal year and establishing the advantages of the Natural Business Year.
- 2 - Having clients who are favorably disposed toward a Natural Business Year urge upon trade associations representing their respective branches of industry and commerce the desirability of making the movement an organization matter.
- 3 - Use your influence in arranging local meetings of certified public accountants with bankers, credit men, and other interested parties for the purpose of considering and acting upon the Natural Business Year proposal.

As ammunition for the campaign, we are enclosing a pamphlet entitled The Natural Business Year as the Proper Fiscal Period. You may have, without charge, sufficient copies to cover your requirements.

Please assure us by means of the enclosed card that we can count upon your help and that you will keep us informed from time to time regarding progress made and results achieved.

Yours very truly,
AMERICAN INSTITUTE OF ACCOUNTANTS

John L. Carey

Secretary.

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THE NATURAL BUSINESS YEAR AS THE PROPER FISCAL PERIOD

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DESPITE ITS GENERAL USE THE CALENDAR YEAR IS NOT
THE NATURAL BUSINESS YEAR FOR THE LARGE
MAJORITY OF AMERICAN BUSINESSES.

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Natural Business Year Council, Representing Business Men, Accountants, Bankers, Credit Men, Trade Associations and Others, Recommends that every line of Business Enterprise Determine and Adopt the Natural Business Year Peculiar to its Needs.

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To the American Business Man:-

For every branch of industry or commerce there is a Natural Business Year which should be adopted as its fiscal year.

While the Calendar Year is the Natural Business Year for some businesses, for others a fiscal year other than the Calendar Year is desirable.

The Natural Business Year, for any particular enterprise and its individual units is that period of twelve consecutive months which coincides with the annual cycle of operations of that enterprise. Generally the Natural Business Year will end when the business activities of the enterprise are at the lowest point in their annual cycle and when inventories, receivables, and liabilities are reduced to their annual minimum. The natural year-end occurs just before the beginning of heavy inventory replenishment in preparation for a new season.

The desirability and advantage of the Natural Business Year should be clear to every one. However because of inertia or misinformation, many business concerns continue to use the Calendar Year with December thirty-first closings when every consideration of efficiency and economy demands the adoption of some other twelve-months' period and a different closing date.

Adherence to the Calendar Year as the fiscal year, when efficiency and economy clearly require a Natural Business Year composed of twelve months other than the Calendar Year, is hardly consistent with sound business management. Consequently those responsible for the success of any line of business should determine what is the Natural Business Year for their industry and take steps to bring about its adoption.

Tax Laws No Obstacle to Change

Misinformation as the reason for failure to determine and adopt a Natural Business Year is understandable but the only piece of misinformation worthy of consideration is that which is

founded on the belief that Federal and State Tax Laws require reports which are based on the Calendar Year and December thirty-first closings. How fallacious this is can best be established by quoting as follows from the Federal Income Tax Laws:

Section 41 states: "The net income shall be computed upon the basis of the taxpayer's annual accounting period (fiscal year or calendar year, as the case may be)"

Evidence of the ability to change from one fiscal year to another lies in Section 46 which reads:

"If a taxpayer changes his accounting period from fiscal year to calendar year, from calendar year to fiscal year, or from one fiscal year to another, the net income shall, with the approval of the Commissioner, be computed on the basis of such new accounting period. . ."

Data supplied by a large bank in New York City about the first of November, 1935, showed that in the case of 144 of their customers, representing 64 businesses or phases thereof, 93 used the Calendar Year for their fiscal years, with December thirty-first closings while 51 used a Natural Business Year with the last day thereof for closings. Of the latter, 10 used June thirtieth; 6 September thirtieth; 6 November thirtieth; 4 each March thirty-first and October thirty-first; 3 each February twenty-eighth and July thirty-first, etc.

This is added evidence that Federal and State laws do not make obligatory the Calendar Year for tax purposes. It also shows that many business men have taken advantage of the use of the Natural Business Year for fiscal purposes, thereby obtaining the benefits and savings of such orderly procedure.

Advantages to Management

Some may contend that the chief beneficiaries of the wide-spread adoption of the Natural Business Year, where it differs from the Calendar Year, will be accountants, credit departments of financial institutions, credit investigating and reporting agencies, and all others who, because of the overwhelming use by business of December thirty-first closings are subjected to an avalanche of work and responsibility during the months of January, February and March. Such a position begs the entire question and can be met most effectively by enumerating in detail the advantages to management of the Natural Business Year.

INVENTORIES—Inventories taken at the close of a Natural Business Year

- (a) Can be taken with least interference with productive activities
- (b) Can be taken with greater ease since at the end of a Natural Business Year the quantity of goods on hand will be lowest and inventory taking will thus be simplified
- (c) Involve less expense since members of the office force are free to assist, thereby eliminating need for temporary assistants
- (d) Reveal true valuations since market prices are more easily determined.

CLOSINGS AND STATEMENTS—Clearly books can be more advantageously closed on the last day of a Natural Business Year, while financial statements based thereon are far more informative than those which reveal conditions in the midst of a period of activities because

- (a) They reflect the outcome of a complete cycle of operations
- (b) They more accurately show the results achieved by commodity sales and policies initiated at the beginning of the period

- (c) The items in the statements can be more quickly, completely and accurately determined because of the more efficient inventory-taking and because receivables and liabilities are at a minimum.
- (d) Such statements will show greatest normal liquidity attainable and hence serve better for accurate credit ratings.

AUDITS—Since the general adoption of the Natural Business Year will spread the dates of financial statements through every month of the year instead of crowding them into the first three months, it is evident that certified public accountants can give more individual attention to the problems of each client.

CREDIT DETERMINATION—What is true of audits of Natural Business Year statements by accountants is equally true of the analyses thereof made by credit departments of financial institutions as well as by the staffs of credit investigating and reporting agencies. They too can develop more accurate data concerning those who seek credit for the information of those who grant it if they can base their decisions on more timely and deliberate studies of Natural Business Year statements which tell correct rather than badly timed and distorted stories of the conditions of a business.

GUIDING POLICIES—The experiences of a past fiscal year are the basis of determination of policies and practices to be followed during the next fiscal year. Such prudent review and planning are greatly aided by the use of the Natural Business Year, because

- (a) There is more free time for the purpose
- (b) Inventories, statements, and reports of auditors, being based on the proper close of a cycle of operations, make possible statistical data of far greater value to management than those based on an unnatural or improper business year
- (c) Accountants, under less pressure in making audits, will have better opportunity to serve clients and be helpful with guiding advice
- (d) The banker with the complete and accurate picture of a Natural Business Year before him can be more deliberate in dealing with credit requests with resulting benefit to the borrower
- (e) A combination of all these factors facilitates and makes far sounder the preparation and adoption of a budget and work program for a new Natural Business Year.

Social Security Promoted

The early and wide-spread adoption of the Natural Business Year—which will mean numerous changes from the Calendar Year and December thirty-first closings and statements—will be of particular importance and value to employees of accounting firms, credit departments of financial and commercial institutions, credit investigating and reporting agencies and to the employees of the bookkeeping and accounting departments of the businesses themselves. They are thousands in number.

For them the general adoption of the Natural Business Year will bring relief from feverish activity, long hours of overtime and the deadly grind that now occurs during the early months of the year.

As a result their employment and earnings will be more regular and stable, thereby helping to promote social security and general welfare.

Helpful Cooperation Needed

With business management, accountants, financial institutions, credit investigating and reporting agencies and the officers and employees of all these groups so vitally interested in and concerned with the helpful results that are bound to flow from a successful campaign for the early and widespread adoption of the Natural Business Year it is hoped that individually and through their national, state and local organizations they will all enthusiastically and aggressively assist the Council in its work.

Respectfully submitted,

NATURAL BUSINESS YEAR COUNCIL

New York, N. Y.

November 25, 1935.

NATURAL BUSINESS YEAR COUNCIL

135 Cedar Street, New York, N. Y.

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