

December 11, 1939

To the Members of the Committee
on Accounting Procedure:

With reference to my letter of December 6th sending you a copy of my reply to a letter from Mr. Wertz, relative to his proposed Accounting Release No. 11, a copy of the proposed Release is enclosed herewith.

T. H. Sanders

SECURITIES AND EXCHANGE COMMISSION
Washington

Accounting Series
Release No. 11

The Securities and Exchange Commission today made public an opinion in its accounting series as to the basis on which marketable securities should be included in the financial statements of an industrial company. The opinion, prepared by William W. Werntz, Chief Accountant, was written with reference to a particular company, but the principles considered are believed to have wider application.

The facts of the case are briefly as follows: The registrant, a manufacturing corporation, included in its current assets, totaling about \$1,000,000, miscellaneous marketable securities which cost approximately \$300,000. Upon the basis of current market quotations the aggregate amount of these securities as of the close of the fiscal year was approximately \$200,000.

Mr. Werntz's letter follows:

“You have inquired whether in the light of sound and generally accepted accounting principles marketable securities may properly be carried in the balance sheet at cost if quoted market prices are substantially less.

“In the form applicable to your company the instructions as to financial statements contain the following requirement as to marketable securities included in current assets:

‘State in the balance sheet the basis of determining the balance sheet amount and, if not shown on the basis of current market quotations, state such aggregate amount parenthetically.’

“In my opinion, the inclusion of marketable securities as current assets is based on the availability of such securities for conversion into cash and the intention of the company to treat such securities as a temporary cash investment. Under such circumstances it is my further opinion that sound and generally accepted accounting principles require that if the aggregate current market quotation for such securities is less than the aggregate cost or other book value by any material amount, provision for such decline should be made in the balance sheet.

“Your attention is also directed to the provisions of the various forms issued by the Commission. You will note that the instructions as to the profit and loss statement indicate specifically that profits and losses on transactions in marketable securities are to be reflected in the income account.”