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The JOURNAL of ACCOUNTANCY

VOLUME L

DECEMBER, 1930

NUMBER 6

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Authors of Articles in This Issue of THE JOURNAL OF ACCOUNTANCY

Eustace LeMaster. Member, American Institute of Accountants. Certified Public Accountant (Washington). Member of firm, Pace, Gore & McLaren, Spokane, Washington.

Herbert C. Freeman. Member, American Institute of Accountants. Certified Public Accountant (Missouri and New York). Vice-president, North American Corporation, New York.

John F. Parnaby. Accountant, Staten Island, New York.

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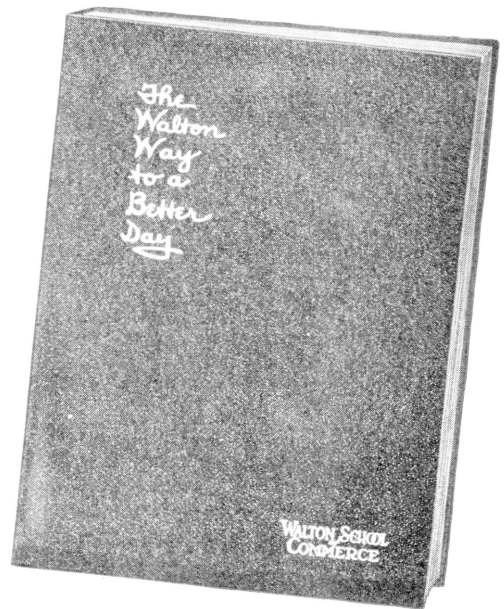
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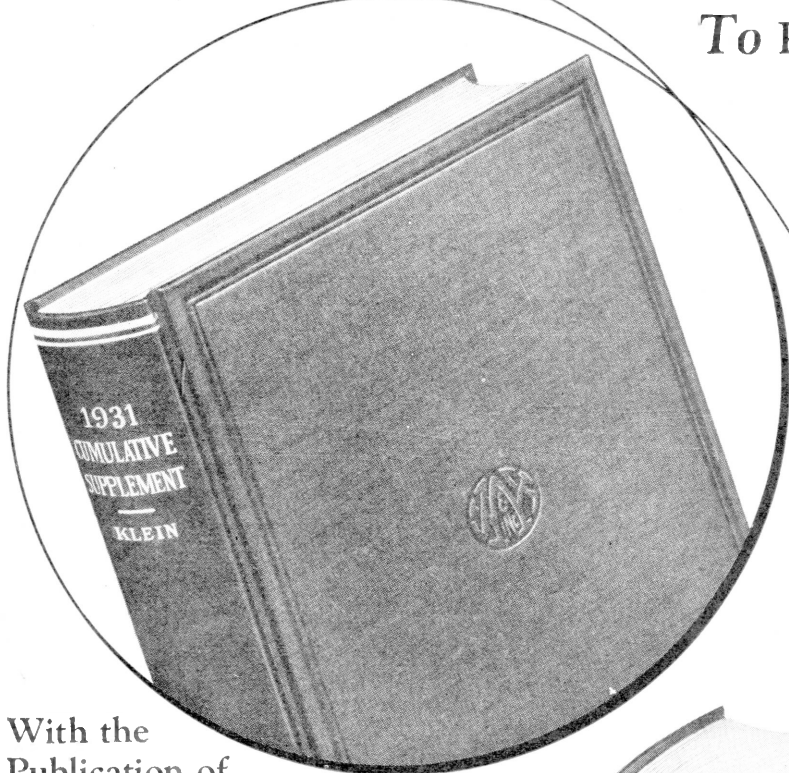
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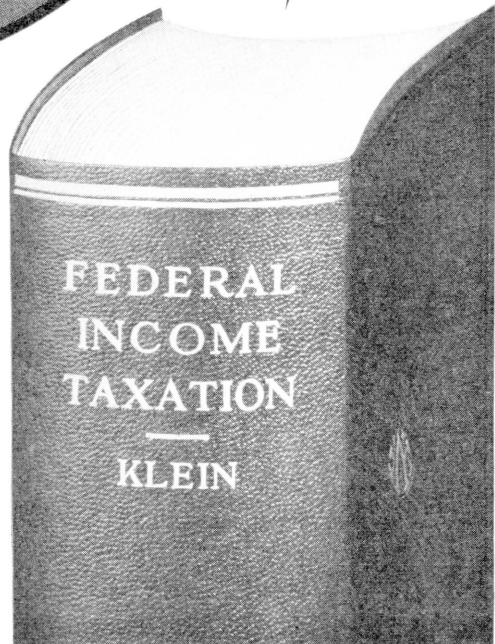
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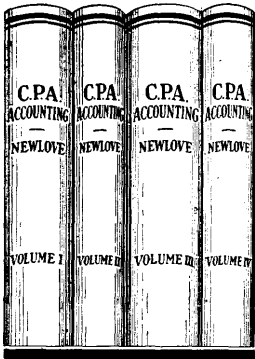
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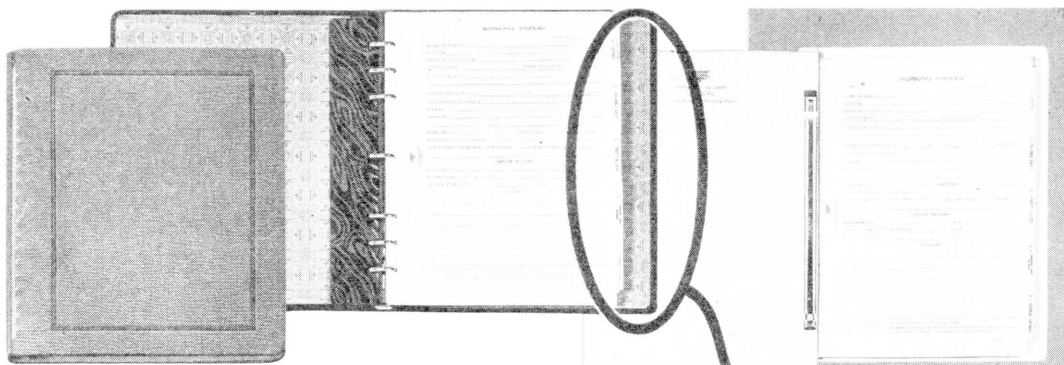
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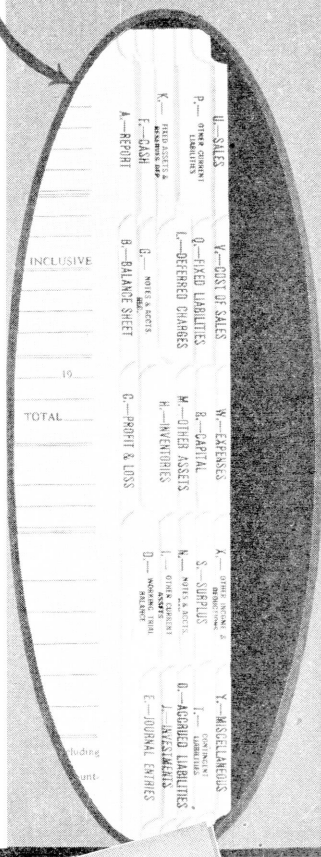
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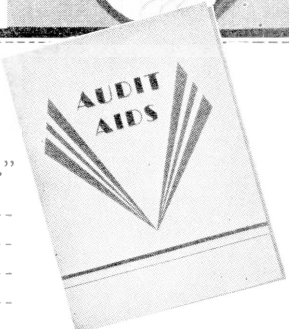
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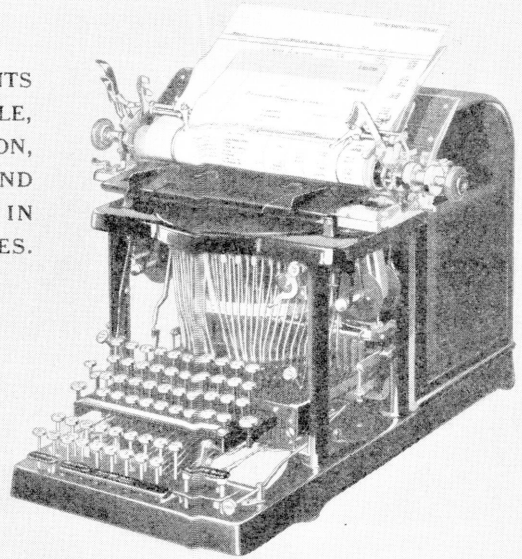
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Vol. 50

DECEMBER, 1930

No. 6

EDITORIAL

When the Hurly- Burly's Done

Within the past few weeks, especially since the tumult and the shouting of the elections have passed, there seems to have been a change in the attitude and actions of business men throughout the country. There is less gnashing of teeth and more looking for practical ways up from the depression. It makes no difference at all in the psychology of the matter that the depression is largely due to fear. Business is not really so bad as we have constantly been told, particularly by people who wanted to get into congress or other official positions, but the sentiment of dread is almost universal and people have been going about shaking their heads and prophesying evil. Lately, however, this condition seems to have been succeeded by a little more common sense and everyone is saying to himself or is being told by someone else that the thing to do now is to ascertain exactly what each one can do to better the conditions—and then, let us hope, each one will proceed to do what seems best.

A Scriptural Precedent

In the history of Israel it is written that King David, when the first son that Bathsheeba bore to him lay sick, besought the Lord night and day to save the child. He fasted and lay prone upon the earth and would not be comforted. But when the servants came and told the king that the boy was dead he arose, washed and anointed himself and changed his apparel and came into the house of the Lord and worshipped. Then he came into his own house and did eat. When the servants were

astonished and could not understand what it was that had changed the behavior of the king he said, "While the child was yet alive I fasted and wept for I said, 'Who can tell whether God will be gracious to me that the child may live?' but now he is dead, wherefore should I fast? Can I bring him back again?" Not long after Bathsheeba bore another son, whose name was Solomon. There may be a wide difference of opinion upon the elastic morals and versatile affections of this far-famed prince, but it is at least proverbial that he had wisdom and accomplishments much above the common. The child who died might have been a source of disappointment to his parents.

**This Wailing
World**

Now, this lesson taken from Scriptural sources could be applied with a good deal of force to what is going on around us today. There was a child of Prosperity and Recklessness whose name was Boom. But he fell sick—perhaps from over-feeding—and while he lingered between life and death Prosperity wept and prayed for him and Recklessness simply would not believe that anything was the matter. Then at last, long after the physicians had expected him to die, he finally passed away. Instead of rising and washing and making the best of things, Prosperity has been wailing and Recklessness cursing fate. There has been no philosophy. No one in the vociferous multitude of mourners has seemed to be able until lately to do anything except howl. A coyote could do as much and do it better. The misbegotten and malformed offspring of an unfortunate union is being carried to a grave but the pall-bearers will not lay the body anywhere. Instead they march on and on and here and there revelling in grief. They kick up such a dust that they blind themselves, and their din is keeping all the rest of us from settling down in peace. If they would only find a hole in the ground somewhere and inter the corpse it would be of benefit to all. Let us hope that when the obsequies are over the mourners will follow the example of the military and play joyous martial music marching back to barracks.

**The Morning After
the Wake**

The dead boom is not worth half the attention which its memory receives, and some people are at last awaking to the stupidity of this persistent woe. Accountants have now a great opportunity to do a good deed in a naughty world. They

can show the mettle of their pasture if they will. What is needed is the sound of strong, reliant voices and the logic of vision. There is no reason to despair in this country, and accountants, perhaps more than any other class of men, can make the truth appear. What has happened, anyway? A sorry combination of conditions has afflicted that portion of the world which it is the smug custom of the occident to describe as civilized. War was succeeded by revival of industry. Wages were absurdly high. Traders in securities reaped immense fortunes, on paper at least. And nearly everyone joined in a frantic jollification which was a sort of prolonged orgy of optimism. Now the law of action and reaction applies in the realm of the intangible as well as in physics. In the language of a childish game, what goes up must come down, and yet people seemed to think that the eternal verity of compensation had come to an end and all was to be up and up. Of course, after the jamborie had ended there was bound to be a morning after. The astonishing thing about it all is that people did not expect to have a headache when they awoke. Then came the elections with all that seems to be inseparable from party contests and it pleased those who were out and would be in to damn the office holders of both parties. No sensible human being paid very much attention to this sort of damnation, but in the aggregate it had a depressing effect. The elections being over, although no one knows exactly what is the result even yet, there is beginning a determination to stop howling and to get to work. If people will pay their bills, whenever they can, and buy as much as they can reasonably, and talk without tears in their voices, we shall come into a better day. No depression in America has lasted very long and this is not the worst depression which we have ever had. Consequently, it does seem reasonable to suppose that the resumption of activity and sound judgment must follow soon. Probably the recovery will be gradual, and indeed it is to be hoped that it will not be sudden—lest we forget.

**How the Accountant
Can Help** Now the accountant has a tremendous duty to perform. To him men of business, executive officers, share holders, bankers and everyone else concerned must turn for the facts upon which to base opinions and to construct programmes of activity. It is no time for anything except absolute truth, and

that is the commodity in which every reputable accountant deals solely. The truth does not consist in a comparison of the statistics of this year with those of last year when all the world was crazy, but rather in a comparison of the statistics of this year with other years more nearly normal. There have been many computations and estimates of the effect which would follow the expenditure of small sums of money by each person each day and there have been some excellent suggestions for providing work for the unemployed by doing all the things that have been left undone and by generally clearing up. Probably the public will begin to listen to these admonitions and suggestions. Everyone really in his heart believes that we are going soon to enter into another era of genuine prosperity. In order to be ready for that happy event everything should be in repair so that when the time comes there may be no necessity to go back and waste time in doing the things that have been left undone. The most serious problem, as we have said before, that now confronts America is unemployment. Other countries, far less fortunate than are we, will not emerge from the darkness nearly so soon. But when America recovers there will be a beneficial effect upon the world. It is a good thing to have a prosperous neighbor, and now-a-days all nations are neighbors. What the accountant must do, if he is not to fail in his obligation, is to discover all the facts and tell them to those who should know them. There is no cause to worry. The facts themselves are sufficient indication of the national health. Let every accountant in his relation with clients do his utmost to prevent distorted vision and to reveal that underneath the present pall there is rich treasure.

**When Crime
Occurs**

One of the unfortunate effects of the lack of confidence which is afflicting the public is the stimulus which it gives to what has been described as the crime wave. When many men are out of work some of them are going to be tempted to do things which they would not do if they were employed. Other men in prosperous times have sought to take advantage of the apparent opportunities of the market and have committed crimes which might have remained undiscovered had prosperity continued. The decline of market values brings to light many a defalcation. A recent issue of one of the New York daily papers quite unconsciously emphasized this condition by publishing four consecutive accounts of bank

defalcations and security thefts, one of \$36,000, one of \$59,000, one of \$43,000 and one of \$5,000. Probably none of these things would have happened in normal times.

**Not a Time for Maudlin
Weakness**

One of the sad duties which confronts the accountant is the determination of responsibility for crimes committed by employees of clients. No one should enjoy the task of accusing a man or a woman of wrong-doing. Sometimes the circumstances make the whole matter absolutely pathetic. There is, of course, now and then someone imbued with the spirit of what the yellow press calls a "sleuth," who revels in detection of crime, but most of us like to think well of our fellow men and it is never pleasant to be disappointed. Then again there are often the complications which detection creates. There are ruined homes and broken hearts and grief incalculable, while the accountant who is the means of discovering the wrong-doing finds himself the instrument of justice. It is very easy to become sickly sentimental in such cases. Most accountants have to fight against a natural leniency, but their duty is quite clear and in the vast majority of cases it is done. The pity of it is that the accountant so often is not called in until the damage has been wrought. People in business are easy-going and they like to think that all their employees are honest, as, of course, most of them are, and so they neglect investigation and allow things to go on along the line of least resistance. Then when the crime is discovered everyone is worse off than he would have been if there had been investigation thorough and searching from the beginning. At a time like the present, the burden of responsibility upon the accountant is greater than usual and he must be on the alert to prevent, if possible, the perpetration of crime or to detect it as early as may be, for the good of everyone concerned. The many cases of defalcation which are being reported in the papers are only a small fraction of the actual number, but as time goes on it becomes increasingly difficult to commit fraud, and perhaps when the so-called crime wave subsides the number of frauds of all sorts detected and undetected will decrease. Criminologists tell us that no sane man commits a crime voluntarily. He is always induced by some combination of circumstances to do the thing which is wrong and in most instances a second crime is largely attributable to a desire to cover up the first offense.

This is particularly true in the case of defalcations and one wonders if the accountant could not here also render a valuable service to humanity by laying stress upon the moralities as he comes in contact with the innumerable employees of clients. It may be suggested to accountants that it would be far more agreeable to exercise a moral influence upon employees than to be compelled later to act as a policeman.

**When Banks are
Failing**

A correspondent in the middle west sends some interesting notes upon what he describes as the banking situation, meaning the difficulties into which banks, especially in the small towns, have fallen. He seems to feel that much trouble could have been prevented had there been thorough investigations in some states instead of merely superficial inspections by representatives of bank commissioners. He says:

“It is not the fault of the commissioner or the examiners. They are so limited by law that they can not make real examinations in the time allotted or for the fees prescribed by the statutes. The salaries paid examiners in many states are not equal to those paid tellers in successful banks. Bank commissioners are often appointed for political reasons and must in turn make appointments for lesser positions for semi-political reasons. . . . When numerous banks fail in a state the commissioner may be criticized when it is discovered that the failed banks have been weak for years, but the examinations were too hurried for the situation to be known. Cases have been known where two banks have been examined (?) in one day. One western state has a finance commissioner who recently demanded that all institutions under his supervision must have an annual examination by certified public accountants and a complete copy of their report must be sent to him. There were objections but the attorney general ruled that the commissioner was within his authority. . . . With stock-exchange demands for periodic audits, with investment houses refusing to underwrite issues without audits, with clearing-house examinations and independent audits of member banks, one wonders why bankers do not apply for their own ills the remedies that have been successful in other businesses. Surely a bank worth saving can stand the expense. . . . With bankers feeling the need of protection when making loans, isn't it fair to give depositors protection? Would not depositors have the same assurance from a certified statement as investors have when the investment banker supports his opinion of securities offered by a certified statement? Would it not be interesting to see if the

method bankers and investors use in making their investments does not offer practical security for depositors and directors not in close contact with internal conditions? If investment bankers find that accountants' certificates are helpful in inspiring confidence, will not bankers find that such certificates stimulate confidence? For example, if one bank in a community has periodic audits and publishes the facts, will not the public have more confidence in that bank than in the banks which refuse to give the public that protection? Is it wholly fair to demand that borrowers give security for loans and to give so little protection to the public? It is common knowledge in banking circles that there is much ignorance and inexperience among bankers. Would not thorough examinations give added security for depositors, add assurance to directors, render sympathetic assistance to inexperienced bankers and yield greater information to bank commissioners? If there is any doubt about the ineffectiveness of present methods, one has only to review the growing list of closed banks and the condition made public after failures."

**The Danger of
a Word**

We have quoted at length from the communication of our correspondent and we endorse heartily much that he has said.

To regard an audit as in any sense an insurance is, however, quite erroneous. The accountant must be careful never to let anyone regard his statement as a guaranty, because it is always merely an expression of his personal opinion. It would be quite as preposterous to expect a physician to guarantee a cure and to insure a patient against the recurrence of the disease or the appearance of another illness as it would to expect the report of the accountant to be an insurance policy. There has been a great deal of foolishness spoken and written about the insurance value of accountants' certificates. There is no such value and never can be, unless the accountant goes into the field of insurance, underwriting the risks of business. When he attempts to do that he ceases to be an accountant and becomes merely an insurer. The professional nature of public accountancy is absolutely incompatible with the gambling spirit. All insurance has an element of uncertainty and the underwriter takes a risk for which he receives compensation supposed to be sufficient to take care of all reasonably expected liability. But that is not the task of the accountant, and he should avoid even the use of the word "insurance" when speaking of the effects of his work.

**Bankers Should Know
Value of Audits**

With that exception, however, the comments of our correspondent have much in them which may receive serious consideration of bankers and accountants. It is indeed an extraordinary thing that the banker who relies upon an accountant's certificate—and now-a-days we are being told that the banker relies almost wholly upon the accountant's certificate—should himself fail to take advantage of the services which accountants can render. There are banks which are subjected to periodic audits but they are in a small minority. It is probably safe to say that in some cities there is not a single bank of importance which engages the services of independent auditors. This is particularly true in the case of banks in small cities. In the great centers of finance there is a better recognition of the advantages to be derived from audit, but still far from enough. As the country goes through its present depression and emerges on the further shore, there are and will be many bank failures due to causes as various as the weather, but a great number of these could be prevented if there were competent and frequent investigation.

There may be states in which the examinations conducted by representatives of the bank commissioner are invariably adequate, but if so we are unable to identify them. In every state of which we have knowledge, bank examinations are far too often merely a perfunctory rite. Unless there is some reason to suspect exceptional weakness, or possibly defalcation, the examinations which the state departments conduct must be superficial. Probably every reader of this magazine can think of one or two cases in which banks have failed simply because no one in authority had been sufficiently insistent to ascertain the facts. Then, when the crash came, an accountant perhaps was called in and everyone wondered how a concern in such a condition could have continued as long as it did. It usually appears that there was some inherent or acquired difficulty which a proper investigation would have revealed and prevented from becoming fatal. Bankers are very fond of telling the accountants of their manifold sins and wickednesses and accountants are acquiring a similar habit with reference to the bankers. A great assistance to better understanding and better business and the health of banks as a whole could be brought about if there were what our correspondent suggests, namely, a universal adoption by all

banks of the principle of independent audit conducted by men who have the time and ability to be thorough.

**A Liquid
Audit**

Once upon a time, a correspondent reports, there was a man who would be an accountant. It was many years ago, before any of the present members of the profession had gone into long trousers, and this man had no opportunity to know quite how to go about the matter which he desired to undertake. He called upon a brewing company—this alone indicates antiquity—and convinced the head of the concern that it was his duty to submit his affairs to audit. The result of the case has recently been unearthed in a so-called report submitted by the pseudo-accountant. The report with names omitted, although no one now alive has the slightest interest in the case, reads as follows:

Brewing Company,

Gentlemen

In handing you statements herewith, I would say that after careful search through your Books and various accounts connected with the Brewery, up to Jan. 1st, , I have found every account so systematic and correct. That owing to the desire of Firm to get through as expeditiously as possible I have eliminated all checking of Bank Accounts (Deposits and Checks) Whilst it is customary to consider this Account in an audit, I do not under the circumstances consider it absolutely necessary to do so, from the mere facts, 1st If an error existed in this, your Bank would notify you promptly.

2nd It would require time to go over all these Accounts.

Having found Books so perfectly correct in comparing all items up to date above mentioned (viz) Jan. 1st , I then devoted my time to the Ledger drawing down all balances of Accounts to Sept 30th

Statement of same I hand you herewith.

I also hand you statement of Loan and License Accounts showing dates of last payments on each, also statement of Rent Accounts. In reference to these account. (If I may be permitted to do so) I would suggest, (in the interest of the business) that these accounts, particularly the X. and X. Acct, be looked into more closely to payments on same, to avoid ultimate loss which as a general rule inevitably comes, from a long standing Acct. of this kind.

If however, it is your desire that? I should remain longer and go through all details, in the closing of your fiscal year accts bringing down to a fine point the cost of producing and cost of selling a Bbl. of Beer etc. I am at your service. This can only

be done accurately, be taking an estimate of all accounts for the year and with assistance of your Bookkeeper take about three weeks, time.

In reference to this however I would say, Mr. ——— can give you all these details correctly as soon as time is given him to work it out in a concise form.

I can not avoid saying in addition to above, that I certainly admire your Bookkeepers thoroughness and promptness in caring for the various accounts, that come under his supervision in connection with other work.

Respectfully yours,

One of the beautiful features of this report is its frankness. The auditor does not wish to offend anyone and he does not intend to do any work for which he is not paid. He evidently had some doubt of the brewer's willingness to pay more than a trivial amount, so he devoted his time to doing nothing of any importance, and then just to make sure that no one could be offended and that there might possibly be a return engagement, he threw in for good measure an expression of his admiration for the bookkeeper. It has been suggested that perhaps the auditor's trouble was not so much to find the cost of a barrel of beer as a commendable effort to test the merits of the merchandise. Some accountants believe that they should take physical count of inventory and certify its quality.

AMERICAN INSTITUTE OF ACCOUNTANTS EXAMINATIONS

[Following is the text of the examinations in auditing, law and accounting presented by the board of examiners of the American Institute of Accountants November 13 and 14, 1930.]

Examination in Auditing

NOVEMBER 13, 1930, 9 A. M. TO 12:30 P. M.

No. 1 (10 points):

Under which, if any, of the following conditions would you permit interest to be considered a part of manufacturing cost and of inventory valuation? State the general governing principle. Give reasons.

(a) A manufacturing company in leasing its premises in lieu of a fixed rental pays the lessor a stipulated rate of interest upon his investment in the premises plus a royalty upon the quantity of products manufactured.

(b) A timber company, having held a tract of timber for a long period, has capitalized the interest upon the mortgage on the timber; and now, upon manufacturing the timber into lumber, proposes to write off depletion based on book values.

(c) A sugar plantation and factory, newly organized, has set up interest on money borrowed to raise its first sugar-cane crop as part of the cost of the crop during the two years required to raise it.

(d) A cocoanut-oil manufacturer buys copra in the Philippines, accepting in settlement an interest-bearing draft which is forwarded by the sellers to their bankers in San Francisco with bill of lading attached. The same copra could have been purchased f.o.b. San Francisco at a higher price.

No. 2 (10 points):

State how you would proceed in making a detailed audit of a bank.

No. 3 (10 points):

One of the duties of an auditor is to ascertain whether or not any liabilities exist which are not shown on the books. What procedure would you follow?

No. 4 (10 points):

In auditing the accounts of a corporation for the first year of its existence what records and documents should be examined before starting on the regular books of account? State reason for each step.

No. 5 (10 points):

The following certificate was appended to the consolidated balance-sheet of the Blank Corporation and its subsidiaries:

We have examined the books and accounts of the Blank Corporation and its domestic and South American subsidiaries and affiliated companies for the year ended December 31, 1929, and have had submitted to us the audited statements of the remaining foreign subsidiary companies. The assets and liabilities of subsidiary companies other than the South American companies are embodied in the above balance-sheet. South American and affiliated companies are treated as investments. In accordance with the decision of the directors, no charge for depreciation of plants was made during the year. We certify that upon the foregoing basis the balance-sheet is in our opinion correctly prepared so as fairly to set forth the financial position of the companies at December 31, 1929.

What qualifications are there in the above certificate?

No. 6 (10 points):

The Y Corporation on December 31, 1929, shows the following balances in its accounts with banks:

1st Nat.	Debit bal.....	\$20,000
2nd "	Overdraft.....	5,000
5th "	Debit bal.....	10,000
		\$25,000
	Total agreeing with cash account.....	\$25,000

State how you would show these balances on your balance-sheet and explain why.

In what circumstances would you modify your decision?

No. 7 (10 points):

The X Corporation was organized in 1914 with a capital stock of \$10,000, paid in cash, and all owned by John Doe, unmarried and without dependents. By 1925 it had accumulated a surplus of \$50,000. The capital stock was then increased to \$50,000,

and a stock dividend of \$40,000 was declared and paid to John Doe. During the next four years the average profit from the business, after deducting a salary of \$10,000 a year to John Doe as president and general manager, was \$2,500 a year, so that on December 31, 1929, the net assets of the corporation were \$70,000, represented by \$50,000 capital stock and \$20,000 surplus, all of both being invested in plant and equipment.

In addition to the federal income tax, the corporation pays a state property tax of $\frac{1}{2}\%$ on the book value of its capital stock; and John Doe, of course, pays a federal normal tax and surtax on his salary plus other income.

In 1930, exasperated by the increasing taxes and the annual state and federal reports he must make on behalf of the corporation, John Doe consults his lawyer who advises him to liquidate the corporation by turning in his stock in exchange for the net assets, to surrender its charter, and thereafter to conduct business individually.

You are engaged to supervise the accounting details of the proposed reorganization, and your opinion of the lawyer's suggestion is asked.

What would you advise, and why?

No. 8 (10 points):

You are auditing the accounts of a restaurant and find that the cost of food supplies is too high in proportion to the receipts from sales.

The restaurant is on the street level of an office building in a busy district of the city. There are four entrances to the restaurant, one on each of three different streets and one from the office building. There is a receiving cashier at each entrance, and cash registers are used. All meals are served at tables and bills are given to customers who make all payments to the cashiers. The kitchen is separated from the dining-room, and two doors are used for service both ways. As the restaurant is open 16 hours daily there are two shifts of employees.

The kitchen manager, who buys all food supplies, contends that the kitchen has issued more meals than have been accounted for in the receipts.

You are asked to suggest a method by which all food taken from the kitchen can be accounted for more exactly. The method suggested must not increase the expense, it must not affect the

speed of service in rush hours, and the number of entrances must not be reduced.

What would you suggest?

No. 9 (10 points):

You are engaged to draw up a partnership agreement for a firm about to be organized. State at least ten important points to be covered in such an agreement.

No. 10 (10 points):

In making a balance-sheet audit of the A B Corporation you have received a certificate, signed by the president and general manager, of inventory amounting to \$60,000, which you have tested to your satisfaction as to prices and clerical accuracy. Later before the close of the audit you discover that the corporation has filed an income-tax return showing an inventory of \$50,000.

What will you do?

Examination in Accounting Theory and Practice

PART I

NOVEMBER 13, 1930, 1 P. M. TO 6 P. M.

The candidate must answer the first three questions and one other question.

No. 1 (35 points):

From the information following, prepare:

(a) Journal entries, recording the purchase of the investments at April 1, June 30 and September 1, 1929.

(b) Statement showing amount of goodwill and capital surplus arising from consolidation, as at December 31, 1929.

In making an audit of the books of account and records of the Smith Theatre Company and its subsidiaries—the Brown Pictures, Incorporated, and the Green Amusement Company—for the year ended December 31, 1929, you find the following conditions:

The Brown Pictures, Incorporated (hereafter alluded to as "the corporation"), was organized January 1, 1929. The incorpora-

tors, owners of theatres in favorable locations, leased their theatres, with equipments, to the corporation for a period of twenty years commencing January 1, 1929, and received, in consideration therefor, all the capital stock of the corporation in addition to an annual fixed rental payable by the lessee in equal monthly instalments in advance on the first day of each month.

The capital stock of the Brown Pictures, Incorporated, consists of 10,000 shares of no par value and was issued, according to the articles of incorporation, for leaseholds appertaining to the leased theatres, appraised by the incorporators at date of organization at \$120,000. With reference to the issue of the stock, you find the following journal entry on the books of the corporation:

Leaseholds	\$120,000	
To capital stock		\$120,000

You also find that during the year 1929, the corporation has amortized the leaseholds by charges to profit-and-loss account on the basis of the lives of the leases.

On April 1, 1929, the Smith Theatre Company purchased from individual stockholders of the Brown Pictures, Incorporated, 5,000 shares of the capital stock of that corporation for \$70,000 in cash, and on September 1, 1929, acquired from the remaining stockholders the balance of the stock, which was paid for in the following manner:

(a) 100 shares of the Smith Theatre Company's no-par-value common stock held in the treasury, purchased at \$35 a share, the market value being \$45.

(b) A sum in cash equal to the increase in the rental under an amendment of the lease of the Star Theatre, one of those originally leased to the Brown Pictures, Incorporated, which had been rented by the Brown Pictures, Incorporated, at date of organization from the stockholders now desirous of selling their stock. The original Star Theatre lease agreement provided for a rental of \$60,000 per annum and stipulated that the corporation deposit with the lessors the sum of \$60,000 bearing interest at 6 per cent. per annum, which was to be applied as rental for the last year of the term. The deposit was made by the corporation on January 1, 1929. The amended lease agreement contained the following provisions:

Term—October 1, 1929, to December 1, 1948
 Rental—\$72,000 per annum from Oct. 1, 1929, to Sept. 30, 1939
 \$70,000 per annum from Oct. 1, 1939, to Dec. 1, 1947
 (payable as in the case of the first lease)
 \$60,000 for the balance of the term, covered by the lease deposit
 originally made by the lessor.

The original lease was canceled and settlement for the lease deposit was made in cash.

(c) Cancellation of the interest accrued on the lease deposit from January 1, 1929, to September 1, 1929, the amount thereof to be credited to the Brown Pictures, Incorporated.

The Green Amusement Company was organized January 1, 1929, with an authorized capital stock of 1,000 shares of no par value issued for cash, in amount \$35,000. This company was indebted to the Smith Theatre Company on a note of the face value of \$15,000. Owing to the unsatisfactory financial condition of the Green Amusement Company, the Smith Theatre Company accepted the note only after endorsement thereof by 95 per cent. of the stockholders of the Green Amusement Company.

With consent of the Smith Theatre Company, the endorsers of the note, anxious to free themselves of their contingent liability, which was likely to become actual, entered into an agreement on June 30, 1929, with the Brown Pictures, Incorporated, whereby they sold to that corporation all their capital stock of the Green Amusement Company upon condition that the Smith Theatre Company cancel the note and that the Brown Pictures, Incorporated, assume the liability therefor on open account.

The books of the respective companies were closed quarterly. An analysis of the surplus accounts at December 31, 1929, was as follows:

	Smith Theatre Co.	Brown Pictures, Inc.	Green Amusement Co.
Balance—January 1, 1929..... (as certified by you)	\$ 840,000		
Profits or losses (*):			
3 months ended Mar. 31, 1929.....	150,000	\$120,000	\$ 5,000*
3 " " June 30, "	140,000	130,000	9,000*
3 " " Sept. 30, "	175,000	135,000	12,000*
3 " " Dec. 31, "	178,000	140,000	15,000*
Balances—December 31, 1929.....	\$1,483,000	\$525,000	\$41,000*

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The capital stock of the Smith Theatre Company consists of 10,000 shares of no-par-value common stock, issued at \$15 a share.

Wherever it becomes necessary, in your calculations, to assume an interest rate, use 6 per cent. per annum.

The profits or losses for the three months ended September 30, 1929, may be assumed to have occurred in equal amounts by months.

Given:

The present worth of an annuity payable \$1.00 monthly for ten years, the first payment to be made in one month, is \$90.075. The present worth of an annuity payable \$1.00 monthly for eight years and two months, but with the first payment of the annuity beginning in ten years, or directly after the former annuity ceases, is \$42.500083.

No. 2 (30 points):

Following, is the trial balance of the recently organized Glenview Golf Club as at December 31, 1929:

	Dr.	Cr.
Cash in bank	\$ 7,225	
Accounts receivable, members	11,160	
Buildings	54,500	
Equipment	8,500	
Golf-course construction	130,000	
Labor	26,285	
Golf-course supplies and expense	12,446	
General expense	4,213	
Interest paid	5,617	
Rent	6,000	
Commissions—soliciting membership	1,100	
Notes payable—bank		\$ 10,000
Accounts payable		2,341
Entrance fees		146,250
Dues		22,950
“Green” fees		5,015
Taxes on dues and entrance fees		490
Entrance fees underwritten		80,000
	\$267,046	\$267,046

A proprietary membership in the club costs \$1,000, plus \$100 tax.

An analysis of entrance-fees account shows that it includes \$110,000 paid in, fully paying 110 memberships, and \$36,250

collected from 60 members. The balance due from these 60 members, plus the tax thereon, is secured by notes for their original unpaid balance. These notes are on hand but not entered.

In September, 1929, a special committee, appointed for the purpose, handed in a statement with a list of 80 members, each of whom promised to obtain a new member and to advance the entrance fee of such member at once, subject to repayment when the new member paid in his fee; accordingly, the following entry was then made:

Accounts receivable, members.....	\$80,000
To entrance fees underwritten.....	\$80,000

Of the above \$80,000, \$70,000 had been collected from the underwriters at December 31, 1929. Nothing had been repaid to the underwriters on account of new members, although 10 such new members had been elected in December and had paid in \$8,800 in cash and signed notes for \$2,200 for entrance fees and taxes.

Dues are \$200 a year, plus 10 per cent. tax, payable quarterly in advance, and have been chargeable and entered on April 1, July 1 and October 1, 1929.

Included in "accounts receivable, members," are accounts totaling \$330 for dues and taxes against 2 members who have been delinquent for nine months, and accounts aggregating \$770 for dues and taxes of 8 other members. Collections can be enforced only by deduction from the proceeds of sale of such memberships after the complement of 300 members is attained.

The building account includes:

Caddy and locker house.....	\$10,000
Architect's plans for a club house, discarded as proposal appeared too expensive.....	3,000
Architect's fees for new house.....	1,500
Payments under a cost-plus contract for the club house (under construction December 31, 1929) with a guaranteed maximum cost of \$50,000.....	40,000
	<hr/>
	\$54,500
	<hr/>

The golf course was finished and opened on June 30, 1929. At that date, the club being obliged to maintain the course since the original construction contract was completed, the operating accounts stood as follows:

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Debits—	
Labor.....	\$10,116
Golf-course supplies and expense.....	4,539
General expense.....	916
Interest paid.....	2,890
Rent.....	6,000
Credits—	
Dues.....	5,950

The club leases its real estate, for which it pays an annual rental of \$6,000, payable January 1st in advance.

The estimated life of the equipment is five years from June 30, 1929.

Of the liability on the books for taxes on dues, \$390 is now payable to the collector of internal revenue, representing collections in December.

Prepare the journal entries which should be made on the books as of December 31, 1929, and January 1, 1930, disregarding closing entries, as the fiscal year ends June 30th.

Submit, also, statement of assets and liabilities as of the opening of business on January 1, 1930.

No. 3 (20 points):

You are called upon to audit the books of account and records of the S. P. mills for the year 1929 and are given a copy of the trial balance, taken from the books as at December 31, 1929, before closing, which is as follows:

	Dr.	Cr.
Cash in bank and on hand.....	\$ 12,205	
Accounts receivable.....	118,496	
Yarn.....	28,607	
Goods in process.....	104,293	
Supplies.....	9,467	
Fuel.....	275	
Finished goods.....	99,097	
Insurance prepaid.....	904	
Interest prepaid.....	1,205	
Plant and equipment.....	276,433	
Accounts payable.....		\$ 55,535
Notes payable.....		110,000
Labor accrued.....		1,521
Reserve for depreciation.....		29,875
Reserve for contingencies.....		2,000
Capital stock.....		206,000
Surplus.....		104,456
Labor—weaving.....	55,234	
—finishing.....	20,429	
Supplies used.....	4,210	
Repairs to machinery.....	3,407	
Power and light.....	10,249	

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Fuel	\$	5,200	
Insurance		1,620	
Taxes		4,194	
Depreciation		9,998	
Factory overhead applied			\$ 161,908
Sales			641,455
Discounts and allowances		2,788	
Cost of goods sold		482,018	
Commissions—selling		24,298	
Salaries—executive		8,783	
“ —office		6,104	
Office and general expenses		1,684	
Interest		7,132	
Dividend on preferred stock		14,420	
		\$1,312,750	\$1,312,750

In the course of the audit you discover (1) that machinery which cost \$4,280 was sold for \$1,720, cash, and this amount was credited to plant-and-equipment account (depreciation taken thereon amounted to \$1,284); (2) that among the accounts receivable an account of \$12,925 for goods billed at regular selling prices actually represented merchandise on consignment (the inventory value of this merchandise was determined to be \$8,404); (3) that prepaid insurance was in excess to the extent of \$121; (4) that depreciation charged was overstated by \$624, and (5) that accrued labor (finishing department) was understated by \$506.

Before making the corrections necessary from the above findings, you decide to verify the inventories and make an analysis of the merchandise accounts. From this analysis, you establish the following:

Goods in process (manufacturing)			
Inventory—January 1, 1929		\$103,802	
Yarn used		317,805	
Overhead applied		161,908	
Finished goods, transferred (see below)			\$477,164
Waste sold			2,058
Inventory—December 31, 1929			104,293
		\$583,515	\$583,515
Finished goods			
Inventory—January 1, 1929		\$103,951	
Merchandise transferred (see above)		477,164	
Cost of goods sold			\$482,018
Inventory—December 31, 1929			99,097
		\$581,115	\$581,115

From the data given and facts disclosed prepare and submit your working-sheet, setting forth thereon all requisite adjustments, and present profit-and-loss statement.

No. 4 (15 points):

Several companies, manufacturing the same—or similar—products, realize that the keen and ill-advised competition which is constantly being encountered is creating unprofitable conditions, and the officers of the companies believe that a merger of all interested companies, coupled with the retirement (from active participation in the conduct of the business) of a number of senior executives who are in receipt of excessive salaries, is the only procedure to adopt.

At a conference of the interested parties, at which the proposal was discussed, you were instructed to outline the accounting procedure to be followed and the financial statements to be submitted by the respective companies.

Prepare the necessary memoranda, embodying therein all the instructions you would issue and the recommendations you would offer, to the end that the accounts of all companies involved may be thoroughly illuminating and may set forth all pertinent facts.

NOTE.—The time devoted to the answer to this question should not exceed forty minutes.

No. 5 (15 points):

“Annual payments made by a corporation under an annuity contract entered into in consideration for the conveyance of realty to the corporation are deductible to the extent that each annual payment is in excess of the present value of such payment at the time the contract was entered into. . . .

“Cost of real estate acquired under an annuity contract is fixed for depreciation purposes as the sum of the present values, at the time the contract was made, of the annuity payments to be made over the life expectancy of the annuitant.”

This quotation is the synopsis of an income-tax case recently decided. The vendor was an individual who was expected to live for about twelve years and was to receive equal annual payments in advance during his life. The purchaser was a real-estate corporation.

Using your own figures, which may be approximations, explain and discuss this synopsis.

Examination in Commercial Law

NOVEMBER 14, 1930, 9 A. M. TO 12:30 P. M.

GROUP I

Answer all questions in this group, giving reasons for your answers.

No. 1 (10 points):

In the course of an audit you find that your client has recently purchased improved real estate. He shows you an unexpired fire-insurance policy accurately describing the buildings but payable to the former owner and not assigned or transferred to your client. He says he is fully protected because the buildings are insured and the policy "runs with the property insured." Is his statement correct?

No. 2 (10 points):

On July 7, 1930, a stranger called at the office of Dunham, a public accountant, exhibited the card of a well-known stationery house and obtained an order for analysis paper. On the next day the analysis paper was received by Dunham, together with an invoice payable in 30 days. On July 15, 1930, the stranger called and asked Dunham whether he would pay then for the paper. Dunham paid in cash and the stranger receipted the bill. It developed that the stranger was a solicitor who received a commission on any order accepted and filled, and that he had disappeared without accounting for the collection from Dunham. Can the stationery house collect from Dunham for this paper?

No. 3 (10 points):

Blair, a public accountant, rendered professional services to Jenkins without agreement in advance as to the amount of the fee. Upon completion of the work, Jenkins gave Blair his negotiable promissory note for \$2,000 payable 30 days after date, in payment for Blair's services. Two weeks thereafter Jenkins had Blair's work appraised by three disinterested experts, all of whom agreed that the fair value of it was \$500. In an action by Blair on this note, can Jenkins successfully defend on the ground of inadequacy of consideration?

No. 4 (10 points):

A corporation had a deficit of \$40,000 at January 1, 1929. During that year it earned a net income from all sources amounting to \$35,000. In January, 1930, the board of directors declared a dividend of \$10,000 out of the 1929 profits. Would this dividend have been legal in your state?

No. 5 (10 points):

Brown, Coates and Danforth were partners sharing profits in proportions of one fourth, one third and five twelfths, respectively. Their business failed and the firm was dissolved. At the time of dissolution no financial adjustments among partners were necessary but the firm's liabilities to creditors exceeded its assets by \$24,000. Without contributing any amount toward the payment of the liabilities, Coates moved to Europe, where he was not subject to legal process. Brown and Danforth are financially responsible. How much must each contribute?

GROUP II

Answer any five of the questions in this group, but no more than five.

No. 6 (10 points):

Curtis, a public accountant, was engaged by Black to make an audit of Black's books, at specified per-diem rates. During the course of this audit, Curtis uncovered a defalcation whereby Black saved \$25,000. After the audit was concluded and Curtis had rendered his report, Black promised to pay Curtis an additional fee of \$5,000 for uncovering the defalcation. Can Curtis hold Black to this promise?

No. 7 (10 points):

Thompson gave a promissory note, endorsed by Sherwood, to Babcock. This was a demand note for \$5,000 with interest at 6 per cent. Later, without Sherwood's knowledge, Babcock made a valid agreement with Thompson reducing the interest rate to 5 per cent. Upon Thompson's failure to pay the note, Sherwood contended that he had been discharged from liability because Babcock had changed Thompson's agreement. Is his contention sound?

No. 8 (10 points):

At 11:30 a. m. Shaw wired Brauer, "Subject prompt reply will engage you to make audit \$2,000 fee." Brauer received this wire at 12:16 p. m. At 12:28 p. m. Brauer wired Shaw accepting the offer. At 1 p. m. Shaw had not received Brauer's wire and Shaw wired Brauer revoking his offer. At 1:43 p. m. Shaw received Brauer's wire accepting the offer. Was there a contract?

No. 9 (10 points):

Hughes was a bookkeeper for the Sutton mills, receiving his salary monthly under a contract providing that if he left without giving two weeks' notice he should receive nothing for wages accrued during the current month. On June 14, 1930, Hughes was arrested, convicted and sentenced to jail. The damage to the Sutton mills from want of notice was greater in amount than one half of Hughes' salary for June. Can Hughes recover his salary for the period from June 1st to June 14th?

No. 10 (10 points):

Bishop, a public accountant, desiring to retire from practice, sold all his assets including his goodwill to Palmer for a stated sum. As a part of the sale Bishop covenanted that he would not engage in the public practice of accounting anywhere for a period of ten years. Is this agreement by Bishop valid?

No. 11 (10 points):

C. A. Nimocks was a promoter engaged in effecting the organization of the Times Printing Company. On September 12, 1928, on behalf of the proposed corporation, he made a contract with McArthur for his services as comptroller for the period of one year beginning October 1, 1928. The Times Printing Company was incorporated October 16, 1928, and at that date McArthur commenced his duties as comptroller. No formal action with reference to his employment was taken by the board of directors or by any officer, but all the stockholders, directors and officers knew of the contract made by Nimocks. On December 1, 1928, McArthur was discharged without cause. Has he cause of action against the Times Printing Company?

No. 12 (10 points):

Section 12 of the revenue act of 1928 provides that there shall be no surtax upon a net income of a specified amount; section 25

provides for certain credits against net income; section 22(b) provides that certain items shall be excluded from gross income; section 23 allows certain deductions from gross income. Assume an individual's total income from all sources to be \$100,000. Using round amounts to illustrate one or more of the items covered by each of the last three sections listed above, show the computation of his net income subject to normal tax and of his net income subject to surtax (the computation of the tax is not required).

Examination in Accounting Theory and Practice

PART II

NOVEMBER 14, 1930, 1 P. M. TO 6 P. M.

The candidate must answer all the following questions:

No. 1 (30 points):

Following are the balance-sheets of company A and its subsidiaries B and C as at December 31, 1929:

<i>Assets</i>	<i>Companies</i>		
	A	B	C
<i>Investments:</i>			
Preferred capital stock of company B— 60%.....	\$ 300,000		
Common capital stock of company B— 90%.....	800,000		
Common capital stock of company C— 90%.....	1,300,000		
Bonds of company B at cost.....	270,000		
Notes receivable—company B.....	20,000		
Other assets.....	2,000,000	\$2,180,000	\$2,000,000
	<u>\$4,690,000</u>	<u>\$2,180,000</u>	<u>\$2,000,000</u>
<i>Liabilities</i>			
<i>Capital stock:</i>			
Preferred—6%.....	\$ 500,000	\$ 500,000	\$ 500,000
Common.....	1,100,000	150,000	500,000
	<u>\$1,600,000</u>	<u>\$ 650,000</u>	<u>\$1,000,000</u>
<i>Surplus:</i>			
Balance—January 1, 1929.....	\$1,100,000	\$ 150,000	\$ 300,000
Net profits for the year 1929.....	400,000	200,000	300,000
	<u>\$1,500,000</u>	<u>\$ 350,000</u>	<u>\$ 600,000</u>

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Dividends deducted	\$ 12,000	\$ 30,000	\$ 30,000
Balance—December 31, 1929	\$1,488,000	\$ 320,000	\$ 570,000
First mtge., 6%, bonds outstanding	\$1,000,000	\$ 600,000	
Notes receivable discounted—company B	10,000		
Notes payable—company A		20,000	
Other liabilities	592,000	590,000	\$ 430,000
	\$4,690,000	\$2,180,000	\$2,000,000

The dividends on the preferred stocks of the respective companies have all been paid during the year 1929.

The bonds of company B, which mature December 31, 1936, were acquired by company A on July 1, 1929, at 90.

Company A acquired its holdings of the stock in companies B and C at the date of their incorporation and has taken up its share of the surplus and earnings of these companies.

From the foregoing, prepare a consolidated balance-sheet as at December 31, 1929, showing surplus at the beginning and end of the year, dividends paid and net profit.

No. 2 (28 points):

The X company formed a new corporation—the Y company—and on January 1, 1930, paid \$100,000 for the entire authorized capital stock, viz.: 10,000 shares of no par value (stated value \$5 a share).

On the same date the new corporation acquired the business formerly conducted by A and B, for \$100,000 in cash. The tangible assets acquired and liabilities assumed as recorded on the books of A and B were as follows: accounts receivable, \$25,200; inventory, \$9,600; four per cent. bonds, par value, \$5,000; land, \$15,400; building, less depreciation, \$25,000; equipment, less depreciation, \$4,300; mortgage payable, \$15,000; accounts payable, \$25,000.

The building was purchased January 1, 1920; \$5,000 of equipment on January 1, 1919, and \$6,000 on January 1, 1928. Depreciation is said to have been recorded on a straight-line basis at the following rates: equipment, 10 per cent. per annum; building, 5 per cent. per annum to December 31, 1924, and 2½ per cent. thereafter.

The cash transactions of the Y company for the three months ended March 31, 1930, are summarized as follows:

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<i>Receipts</i>	
10,000 shares of capital stock	\$100,000
Accounts receivable collected	65,000
\$3,000 par value of 4% bonds—sold February 28, 1930	2,800
Accrued interest on bonds sold	20
\$100,000 par value 5% debentures of Y company due January 31, 1940 (issued January 31, 1930)	90,000
	<hr/> \$257,820 <hr/>

<i>Disbursements</i>	
Payment to A and B	\$100,000
Merchandise	60,000
Mortgage and accounts payable at January 1, 1930	40,000
Selling, general and administrative expenses	20,000
Life-insurance premium	2,000
Organization expenses	1,500
	<hr/> \$223,500 <hr/>

At March 31, 1930, accounts receivable amounted to \$80,000; accounts payable for merchandise \$35,000, for expenses \$3,000; the inventory was valued at \$40,000 and prepaid expenses were computed at \$1,000.

According to the directors' minutes, the building and equipment are to be valued for accounting purposes and recorded at cost to A and B, less depreciation on a straight-line basis at 2½% and 10% per annum respectively, and the other assets at the value shown by the books of A and B. Organization expense is to be written off in January, 1930, and depreciation is to be provided on the revised basis stated in the minutes.

Prepare balance-sheet as at March 31, 1930, including provision for federal income tax at 12%, and income account for the three months ended March 31, 1930.

No. 3 (27 points):

The Pine Lumber Company is the owner of a tract of timber, of which it is estimated there will be 1,330,000,000 feet remaining to be cut at January 1, 1931. It intends to cut off this timber and manufacture it over the ensuing ten years, and its present plant, main-line railroad and equipment will be adequate for that purpose with normal replacements.

In the analysis of the accounts for the three years ended June 30, 1930, the following items of expenditure were shown:

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New plant extension	\$385,750
Plant and main-line railroad replacements	101,070
Equipment replacements	116,480
Construction of logging spurs	217,300
	\$820,600

Plant and main-line railroad replacements as above may be considered normal for a three-year period under the usual operating conditions. Equipment replacements may, likewise, be assumed to be normal, but it is to be expected that necessary purchases of new equipment will depend on the number of feet cut.

It is estimated that the construction of logging-railroad spurs into 1,000,000,000 feet of the remaining timber will cost \$900,000; spurs already constructed are available for logging 330,000,000 feet.

The company's operations for the three years from June 30, 1927, to June 30, 1930, during which it manufactured 364,000,000 feet of lumber, are summarized as follows:

Net sales of lumber and inventory adjustments	\$8,736,000
Cost of sales:	
Logging, manufacturing labor and expense	\$6,576,770
Amortization of logging-railroad spurs	172,900
Depreciation, plant and main-line railroad	213,500
Depreciation, equipment	133,910
Depletion of timber	728,000
	7,825,080
Gross profit	\$ 910,920
Selling and administrative expenses, taxes, etc.	976,230
	\$ 65,310
Operating loss	\$ 65,310
Interest paid	158,850
	\$ 224,160

In order to liquidate all of its present indebtedness, the company is about to negotiate a loan for \$1,000,000, to be dated January 1, 1931, with interest at 6 per cent. per annum on the unpaid balance, the principal payable in ten equal annual instalments beginning December 31, 1931.

Using sales prices and expenditures as experienced for the three years to June 30, 1930, as a basis:

Prepare a statement of the "conversion value" of the timber remaining at January 1, 1931, that is, the cash funds to be realized from the operations of the company available for liqui-

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dation of the principal under the proposed loan or for other purposes. Calculate the "conversion value" or cash funds to be realized per thousand feet of timber to be cut, to the nearest tenth of a cent.

Prepare also a statement comparing payments to be met in each year under the proposed loan with the cash funds to be available each year, assuming that all the timber will be cut and manufactured in equal annual amounts.

NOTE.—The foregoing relates to the determination of "conversion value" now commonly required by long-term creditors of timber operators, and requires statements other than the orthodox balance-sheet and profit-and-loss statement.

No. 4 (15 points):

You foot the cashbook of the M Manufacturing Company for October, 1930, reconcile the bank accounts as at the close of business on October 31, 1930, and list the cash and cash items on hand at the beginning of business the following morning, with results as follows:

Cash in bank and on hand at close of business on October 31, 1930, including office cash fund of \$3,500, ascertained as follows:	
Balance as at September 30, 1930	\$ 26,250.25
Receipts for October	179,750.00
	<hr/>
	\$206,000.25
Payments during October	174,311.42
	<hr/>
Balance as at October 31, 1930, per cashbook	\$ 31,688 83
<hr/>	
Bank balances, as reconciled:	
First National Bank, Blankville	\$ 21,413.28
Downtown Trust Company	5,260.10
Downtown Trust Company—Payroll account	1,515.45
Cash and cash items on hand:	
Cash	1,189.32
*Receipt of mail clerk for postage fund	25.00
*Receipt of shipping clerk for expressage fund	10.00
Unentered vouchers for sundry payments made in cash	504.87
I. O. U.'s for payroll advances (approved by factory manager)	213.43
Cheque dated September 15, 1930, cashed for purchasing agent, returned by bank September 22, 1930, "account insufficient funds"; purchasing agent has promised to "make good"	100.00

*Assume that these funds were checked later on the same day and found to be in order.

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Cheque of cashier, dated October 31, 1930, which he states was to cover cash withdrawn by him for personal use.	\$ 50.00
Unentered cheque from the Transylvania Railway Co., dated October 20, 1930, which, according to the covering letter in the files, was received October 22, 1930, and relates to a claim filed by the M Manufacturing Company under date of June 9, 1930.	124.65
Cheque of Green & Co. for bill of M Manufacturing Company, dated September 20, 1930, returned by bank October 31, 1930, account payment having been stopped by Green & Co.	358.95
Undeposited cheques from customers, as follow:	
Clark & Son, dated September 22, 1930, entered in cash-book September 24, 1930.	287.50
Jackson & Bro., dated September 22, 1930, entered in cashbook September 24, 1930.	240.75
Miller & King, dated September 26, 1930, entered in cash-book September 29, 1930.	394.60
Thompson Stores, Inc., dated September 29, 1930, to be entered in cashbook as of November 1, 1930.	150.30
Retail-stores collections to noon, October 31, 1930, to be deposited and entered in cashbook as of November 1, 1930.	211.45

Consider the propriety of the foregoing items and list any that you would be prepared to exclude in ascertaining the actual status of the cash account. Give reason for exclusion in each case.

The Future of the Small Accounting Firm*

BY EUSTACE LEMASTER

There is no reason to become alarmed about the future of the small accounting firm. A review of the conditions that culminated in serious losses to the small firms last year shows that the position of the small firms needs strengthening, but it is by no means hopeless.

The position of the small accounting firm has been assailed on three sides. Large manufacturing corporations have organized subsidiary accounting corporations for the purpose of auditing the accounts of their dealers; banks have organized accounting departments to make surveys of the accounts of prospective borrowers; and there has been an increasing tendency on the part of those who control accounting assignments to give preference to the large accounting firms.

Unquestionably, many local firms have lost much business to the so-called national firms. When speaking of losses, I include the failure to receive a just proportion of new business as well as actual losses of old business.

The period of inflation just passed played havoc with the practice of many small accounting firms. The national firms acquired many profitable assignments which had been handled by local accounting firms. This condition was due primarily to the unprecedented opportunity investment bankers were given to dictate the assignment of accounting work in mergers, consolidations and expansions. Local accountants have felt aggrieved and have voiced severe criticism of investment bankers for what the local accountant felt was unjust discrimination.

In spite of the fact that the work of many local accountants is equal to the average work performed by the national firms, investment bankers can not be charged with unjust discrimination. In choosing national firms, investment bankers have merely followed the line of least resistance.

The chief concerns of the investment bankers with respect to accounting service are: first, reliability of information; second, the general recognition of the accountant; third, prompt service; fourth, low cost.

* A paper presented at the annual meeting of the American Institute of Accountants, Colorado Springs, September, 1930.

Investment bankers are busy and human. In seeking accountants or recommending accountants, they naturally turn to those with whom they are personally acquainted. The national firms have availed themselves of their opportunities to effect personal acquaintanceship. The result is, the investment banker does not take time to investigate and to determine the professional merits of individual local firms, except on rare occasions.

The primary problem of the investment banker is a sales problem. He tries to select an accountant whose name in his prospectus will be immediately recognized by the public. He does not feel that he can risk the creation of sales resistance by using local accountants whose names are not generally known.

Speed and cost go hand in hand. The national firms with their highly organized staffs, usually render prompt service. Unfortunately, this is not always so with local accountants. Per-diem rates are not the measure of the cost of accountants' services. Ultimate fees and timely reports are far more important than the charge by the day.

The national firms naturally secure assignments national in their scope. The successful handling of a large scale audit in many cities at once requires a careful coordination of staffs under one head with the power to command immediate obedience to orders. I think we shall never see the day when a group of small accounting firms will be able to carry a large audit to a speedy and successful conclusion. The utter lack of uniformity of working papers, audit procedure, reports and other technical matters makes the use of correspondents unwieldy, slow and consequently costly.

So much for the reasons why investment bankers choose national firms rather than local accounting firms.

Prior to the period of inflation, and extending through it to the present time, there has been a tendency on the part of the larger commercial banks to favor the national accounting firms over local firms. While the small firm's losses resulting from this favoritism have not been so severe as those resulting from mergers and consolidations, they have been continuous and have extended over a longer period of time. The steadiness and persistence of these losses have been discouraging to many of the smaller firms. Try as they might to establish reputations for reliability, many reputable accountants have been dismayed to see commercial

bankers recommending national firms to local business men to the exclusion of local accountants.

Neither the efforts of the national firms nor the bankers are wholly to blame for the condition.

The relation of the accountant with those who have occasion to use the results of his service is one requiring a high degree of confidence and trust. Frequently, the confidence and trust of third parties not privy to the contract of employment are far more important than the confidence and trust of the persons actually paying for the accounting service. In many cases, the third party has more to say about the employment of the accountant than the man who actually pays the bill. It follows then that a general reputation for skilled and trustworthy service is one of the principal assets of the small accounting firm.

Unfortunately, this principle has not been recognized by all accountants. In fact, there are men holding themselves out as public accountants who are not qualified to do so, either morally or technically. The prevalence of untrustworthy work has compelled commercial bankers to prepare black lists of accounting firms. One of the leading bankers in my home city classifies accountants under two headings: those who make statements as the clients want them, and those who do not. The length of the list of local firms classified as making statements as the clients want them is by no means evidence of the general trustworthiness of local firms.

A banker of my acquaintance has just lost a considerable sum of money through the failure of a large commercial firm. The banker had lent money and had renewed loans on the strength of a local accountant's report. The company failed and an audit by a national firm revealed the fact that the local accountant had materially understated the liabilities. The local accountant had been careful to cover himself by qualifications, but he had neglected to do that which is ordinarily required of an accountant in the verification of liabilities. In other words, the local accountant had been zealous in his efforts to keep his fee low, to please the man who paid him and to avoid personal liability by means of qualifications. If he had been equally zealous in his consideration of the interests of those not privy to his contract, many thousands of dollars would have been saved. The banker in commenting on this case, tapped a pile of reports and said, "This is going to hurt all of the local accountants—severely", and he meant it.

It does no good to cite the injustice in the condemnation of all local accountants for the poor work of some of them. The fact remains that it is easier for the busy banker to recommend reputable national accounting firms instead of making the investigation necessary to determine the trustworthiness of small accounting firms suggested to him.

There is no good reason why reputable local accountants should not have the greater part of the local accounting practice. The advantages the local accountant enjoys in opportunity to serve his client are too well known for me to enumerate them here. Suffice it to say that the accountant renders a minimum of service when he merely signs a certificate to a statement of financial condition. And many business men are deprived of the treasures that rest in the rich experience of capable accountants who live in their own home town.

Summarizing what has been said before, the principal obstacle in the way of a healthy growth in the business of small accounting firms is the rather widespread lack of confidence in local accountants as a class.

The prevalence of untrustworthy accounting work can be traced directly to the utter lack of control exercised over the individual accountants either by legally constituted authority or by the profession itself.

What I have to say next must not be construed as an attack on certified public accountants or C. P. A. legislation. My remarks are made with the hope that legislation may be enacted that will make the licensing of accountants an effective safeguard to the public.

The licence of a certified public accountant is, in most states, an empty title which affords no protection whatsoever to the public. In my own state, an attorney recently stated in an address to a jury: "All that is required in this state to become a certified public accountant is that you be nineteen years old, of good moral character and pass an easy examination. Why these C. P. A.'s are nothing more than glorified bookkeepers. The licence may be revoked for cause, but the maximum punishment for violation of the statute is a fine of one hundred dollars." The statement is exaggerated, but not uncalled for. The licence is revoked or suspended only after long and expensive hearings. The revocation of a licence does not bar the offending party from continuing to practise as a public accountant. Aggrieved persons have found that both legal and practical obstacles nullify theoretical

remedies against erring accountants for damages suffered. Is it any wonder that bankers would rather rely on the reputations of a few large firms than on the fact that a man is a certified public accountant?

This situation can be corrected by uniform accountancy legislation which will provide among other things:

1. That licensed accountants only shall be permitted to practise accountancy.
2. That moral, educational and experience qualifications shall be high.
3. That the punishment for incompetence, negligence and dishonesty shall be speedy and sure.
4. That damaged persons shall be provided with adequate remedies.

The situation has been known for a long time to professional accountants, and many have been the attempts to correct it. The repeated failure of accountants to secure remedial legislation are due primarily to the fact that there is no public demand for adequate accounting legislation. The voting public is not acquainted with the work of accountants, much less with the need for control over the profession. Many legislators, unless selfishly interested, are not concerned in any legislation that does not result in votes. In other words, many modern legislators are engaged principally in the business of vote getting.

It can be seen readily that I am not particularly optimistic about the passage of adequate legislation, even in my life time. But, that is no reason why we should cease in our efforts to secure the passage of good accountancy legislation.

In the meantime, through the existence of an organized group whose reputation for reliability will be generally recognized, professional accountants must depend upon the profession itself to overcome the lack of confidence in local accountants generally. The banding together of reputable accountants in a society which, jealous of its reputation, shall carefully select its members, set standards of ethics, carry out educational programmes, exercise strict control over its members, and speedily dismiss those who prove themselves not worthy of the honor of membership, is the only method by which reputable accountants may remove themselves from a section of the profession that is now more or less under a cloud.

The existence of a strong organization will do much toward removing the prejudice of financial houses against local accountants; it will remove most of the hazards that large financial institutions now incur in the acceptance of certificates from local accountants; and it will eventually result in the general acceptance of the reports of small accounting firms without question, provided the report is signed by a member of the group.

I sincerely believe that the American Institute of Accountants is such a society and that it has achieved some success in establishing for its members a general reputation for reliability. Small accounting firms throughout the United States have not fully realized that the American Institute of Accountants is in a position to render them a great service. I wish that we could impress the small accounting firms with the importance of coöperative action, to the end that principals of all reputable accounting firms could be counted in the membership of the American Institute of Accountants.

I have faith in the future of the small accounting firm because of the existence of the American Institute of Accountants. It is essential to continue our faith in the ideals of the Institute, and to let nothing influence us to lower the standards we have set for our members. Let us carry on.

Calendar Reform*

or

THE EVILS OF ANTICIPATION

BY HERBERT C. FREEMAN

I am not standing here as a vice-president of The North American Company. I simply feel that I have come back home to my old friends in the accounting profession. I believe there are very few of you who realize how much it means to me to be welcomed back in this way and not to have been taken out and shot as a deserter in the cold, gray dawn of some January morning in 1921. Those of you who remember how cold and gray the dawns were in 1921 will think perhaps I might have been spared a good deal of anguish if I had been shot.

My consternation when I was assured that I was really seriously selected for this honor tonight was considerable, because I realize that accountants are the greatest after-dinner speakers in the world, of this age or of any other. Pay attention some evening down-town at the hour for dinner to one of the little groups of accountants and listen to the after-dinner speech of the speaker of the evening. "Well, let's get back to the office. I promised my wife I would try to catch the nine fifty-five tonight." Thus conscience doth make liars of us all! He knows perfectly well it will be the ten-thirty or the eleven-forty.

Then take the man who makes a point of getting home to dinner. Catch him a day or two after the honeymoon; he is apt to phrase his after-dinner speech in more ingenious terms then. "Has loveykins any nice little thing she would like to do all alone this evening without any nasty man to bother her?" Unspeakable wretch! His meaning is precisely the same as that of pater-familias, when that expectant pause comes after coffee. "I have some papers that I think I will have to spend a few minutes on this evening, my dear." And "my dear," with the knowledge born of long experience says, "Very well, I will go up to bed at ten o'clock. Turn off the sprinkler in the garden, please, and see that the library window is closed before you come up."

* A speech delivered at the banquet following the annual meeting of the American Institute of Accountants, Colorado Springs, September, 1930.

If it is permissible to digress before one really has reached one's topic, I should like to draw the attention of the ladies present to a passage that occurs early in the first act of *Hamlet*. It is perfectly clear that Shakespeare had some pre-vision of the conditions which would exist in accounting circles in this country in any year up to the fifteenth of March, and in most years during the remaining nine months of the year. It is true that in the play nothing more serious than a war is impending, but how appropriate are the lines alike to accountants and shipwrights:

“Why such impress of shipwrights, whose sore task
Does not divide the Sunday from the week;
What might be toward, that this sweaty haste
Doth make the night joint-laborer with the day;
Who is't that can inform me?”

In accounting, as in war, it is evidently customary to conceal one's real purpose, hence the development of the accountant as an after-dinner speaker of the quality I have indicated.

So when I came to choose a topic for this evening I decided that before such a body of consummate artists it would be advisable to use phrases that need not be taken too literally. I, therefore, propose to speak upon the topic of “Calendar Reform, or the Evils of Anticipation.”

I do not want for one moment to appear to align myself with that courageous and, I hope, ineffectual group of men who have recently discovered that four goes into fifty-two thirteen times, and who have missed entirely the point in the Divine humor in making the year just a shade under $365\frac{1}{4}$ days long. I realize too well how inadvisable it would be to introduce anything of a controversial character into a talk of this kind. Let me hasten to add, therefore, that the kind of calendar reform which I advocate is merely the total and complete abolition of the calendar as a measuring stick with regard to human activities.

Dates, of course, are useful as a means of recording past events. My quarrel is with the future date and more particularly with the use of divisions of the calendar as a fence along the path of life—a number of small posts and every now and then at regular intervals a larger one, and every little while, but always with regularity, a great big post. I should like to sweep the whole fence of pickets and posts away so that the road might broaden out into the fields of today's happiness.

It is a lamentable fact, but our modern civilization is so bound by the divisions of the calendar, those basting stitches on the hem of life, that we actually train people to wish away their lives. When this condition first developed, it is hard to say. First nature, then the apprentice system, then the wage system, each in turn had something to do with it. It is safe to say, however, that it did not really crystallize until the pernicious practice of accounting developed into something like its present form. I mention the apprentice system solely on the authority of the old song of the apprentice, in which he says, "And, oh, had I but served the time that takes so long to flee-o!" But we must remember that he was in love and wanting to marry. In that condition I am told that even the short interval before the fledgling accountant expects to become a broad-pinioned senior appears long, to say nothing of the seven years that a man had to serve to become a good member of the saddle-makers' guild.

The basis of this undue haste to skip from one day of the calendar to another is of course mainly economic. We try to impress the operation of the time machine on the immature mind by a device of the Evil One known as pocket money. It is true the amount is fortunately not large enough, as a rule, to draw the mind of the young person from the enjoyment of the pleasures of the moment, even from those pleasures the participation in which involves the forfeiture of the hebdomadal dole. Then we try to fortify the time impression of pocket money by associating with it another institution of the machinery of civilization, the Saturday holiday, the better to sap the five days from Monday to Friday of everything that might inspire the youthful spirit.

That, however, is only a feeble beginning, a first attempt to impress the ruthless rhythm of the calendar upon the young mind. We shall follow that up later with some slight foretaste of real economic pressure, when the middle of the week seems as barren as the desert, and only on pay days does the bay tree of life flourish, to shrivel pitifully over the next day or two. The more intellectual minds, who might be expected to resist this weekly depression, are given jobs that yield their meager remuneration every two weeks, or possibly at intervals of a month. The more they resist, the more shall they be made to suffer.

All this, of course, is totally and basically wrong. We send our young people to high school and college where we permit, aye, expect them to be trained in the development of spending powers

of magnificent proportions. How feeble the parental industry which can yield a monthly allowance so meager that the merest tyro among our college-bred youth can express himself for a single evening to such effect that it vanishes like a barren fig tree that is cut down and cast into the fire! And we, who pride ourselves upon the encouragement of everything that is done on a large and imposing scale, render this high-powered and masterful command of the distribution of wealth sterile for certain arbitrary periods of time which we designate with machine-like regularity upon humanity's time card, the calendar.

I have thought of one remedy, a remedy which is both obvious and simple. Why force our young people to wish away their lives until the next pay day, our older people to count those days lost until the family coffers are replenished? Let every day be pay day. Let the intermittent springs of allowances gush forth when the basin of desire rather than that of supply overflows.

Of course, there is another remedy, and that is to make our happiness, indeed our pleasures, depend upon things which do not involve the outpouring of cash by the jugful. But that is not nearly so simple, and under such a régime I am afraid most of our jazz players would starve to death, so it will never be adopted. It would be much more popular to abolish the calendar.

You may ask what all this has to do with accounting? I plead guilty to some disregard of the clock, if not of the calendar, in coming to my point. It is this: There seemed to be a little higher in the economic scale a class which all things considered, should be more or less immune from these alternations, under the tyranny of the calendar, between periods of low and high pressure. I mean the merchant, the capitalist, the executive class. We can think of them back in the days of the old merchant adventurers when they sent forth their argosies to strange and unknown shores. When one of them came back and its cargo was sold, perhaps an account would be made up. Even in recent years I have come across the planter whose accounts, such as they were, were kept by crop years, which overlapped and faded out, but the books were never closed.

Such primitive simplicity could not, of course, stand before the onrush of organized accounting. These men must be made to feel that there are intervals of life which simply do not count. What more reasonable then to force these men into submission to a division of time known as the fiscal period? At first it was a year.

The blood pressure of the more phlegmatic Briton could apparently stand the strain of waiting for about three months until our brethren over there duly audited and certified his accounts. But over here the tension had to be raised at more frequent intervals. Our captain of industry had to be made to realize that the year consisted for all practical purposes of twelve accounting periods; that all his efforts went for naught except in so far as they were represented by the last figure in a column prepared in deadly parallel form, with last year standing as an accuser of retrogression or a cheerful witness of progress.

But even this was not enough for our fanatical servants of the calendar. There were too many businesses in this country that were making steady progress; too many of our executives who could sneak off and enjoy themselves from one income period to another, confident that the next would not show up so badly after all.

To curb these light-hearted gentry, there had to be devised another formula—a sort of side bet made not with nature or with the seasons or with the ordinary vicissitudes of business, but with a mathematical device as implacable as the multiplication table. I have in mind the budget, which was contrived for the purpose of taking the last bit of joy out of life.

A man might be able to beat last year's results and operate more efficiently than last month, but could he meet the budget? Assuming that he met the budget this month, or perhaps even beat it, the intention was to increase his anxiety as to next month. Of course, when life becomes as rigorous as that the bootlegger always steps in. So we came by the misbegotten budget that was made for the purpose of being beaten. But our infernal revenue and expenditure despots soon dealt with that. They fired first and investigated after, in the approved manner.

I realize I am practically taking my life in my hands in flinging the charge of these cumulative crimes against the happiness of mankind in the teeth of you gentlemen. It is useless for you, though, to try to lay the blame on the calendar. It is only in economic matters and more particularly in their accounting manifestations that the calendar is allowed to trample so ruthlessly on little mortals engaged in the pursuit of happiness.

Take, for example, the purely sociological side of life. Does the bootlegger sit down and wish his life away waiting for his product to attain the desired maturity? You know he does not. Take

the spheres of pure and applied art. Does the young painter or sculptor wait until he can produce a recognizable image of anything above, on, or beneath the earth before he finds a dealer to launch him on his career? Does the antique dealer bow down and worship the calendar past, present, or future? I pause not for an answer, for none is needed. Even in legislative matters the calendar is set at defiance. All of you who read your *Congressional Record* religiously know that the legislative day of January 30th can well extend over into the calendar day of February 3rd.

The ladies, God bless them, whatever may be said pro and con on the subject of economic freedom, know better than to allow themselves to become slaves to the calendar. Do you make your wife a regular allowance or do you give her money whenever she needs it? You know the time-honored answer is, "both." Have you ever made what you regarded as an appointment with a woman? Fortunate man, for you have had an opportunity to cogitate upon the complete emancipation of mankind from the tyranny of time. The latest pronouncement of Professor Einstein, that time is having its revenge and is consuming space, assumes the aspect of a mere play upon words.

I return, therefore to my point that it is mainly in the accounting manifestations of economics that this undue subservience of mankind to the calendar is observed. So few really sincere attempts seem to have been made to break this domination. There is one more or less authentic case on record of the chancellor of the exchequer of a German principality who made the statement that for the average twelve months' period his revenues and expenditures balanced. Investigation disclosed that the average was arrived at by taking the revenues for fifteen months and the expenditures for nine months. Why disturb the sum total of human happiness by any misguided attempts at anything more exact? Why not try to humanize the art of accounting? Think what human interest there would be, for example, in a report to stockholders which said that the profits were not so good but the president and his wife were enjoying a very pleasant summer in Europe; that sales showed some decrease but the vice-president was low handicap man at the golf club; that collections were rather poor, but the treasurer and his wife were bridge champions of the county; and that, anyhow, results had been excellent as recently as the year 1924, and sometime, when they were least expecting it, might be even better, after the present depression had passed

away. The important thing, of course, is not to encourage the stockholders to look for dividends with any alarming regularity. Otherwise, they too, become servants of the calendar on a quarterly basis.

May I be allowed to digress again on the subject of the budget? There have been some misguided attempts to impress the stereotype of the budget even on personal exchequers. These attempts have, I think, for the most part been as futile as the household-expense book, than which futility goes not further. I am inclined to think that the United States government itself engaged in one noble experiment in this direction. In 1874 the District of Columbia created an issue of bonds, which unfortunately matured in 1924, bearing interest at the rate of 3.65 per cent. Of course the purpose of this is obvious. You reduce your budget to a daily basis. Then, having multiplied by 10,000, you invest that number of dollars, and you can retire to Colorado Springs and live happily, being careful, of course, to arrange to spend the day with Aunt Carrie in Denver every twenty-ninth of February. There is a somewhat fascinating simplicity about this. You invest \$100,000, and you have the upkeep of your automobile and chauffeur; \$10,000, and you have your caddy fees; another \$1,000, shall I say?, and the income provides you with your contribution to the collection plate at church, and so on. I am only waiting, in harmony with the more modern tempo, for some perfectly gilt-edged investments yielding seven and three-tenths or ten and ninety-five one hundredths per cent. to give the method a trial myself.

I feel that I should not close without making one word of explanation. It was impressed upon me that I was not to speak tonight on any technical subject. Now I know from experience that there are only three things that accountants take seriously: religion, golf and technical subjects, in that order in one direction or the other. With two of these subjects practically taboo as a subject for after dinner tonight, and the third a subject for all men, in the sense in which the Psalmist referred to them in a moment of haste if not of cynicism, I was thrown back on resources of a somewhat random character. Of course, I realize that life is serious. I realize, too, that accounting is very, very serious. If I have appeared to be in any way flippant tonight it must be attributed to the altitude. I apologize.

English Companies' Act, 1929 — Cause and Effect

BY JOHN F. PARNABY

November 1, 1929, is a date which will be remembered by all who are engaged in the accountancy profession in England.

The most important English statutes governing joint-stock companies had been, up to that time, the companies acts of 1908 to 1917, but as time went on it became increasingly apparent that this legislation needed revision, and finally a committee was appointed to make an exhaustive examination of the position.

As a result of the recommendations made by this body came the companies act of 1928, the object of which was merely to amend the law as it stood.

With the solitary exception of one section, this act, although passed by parliament, never came into operation, but instead came an act consolidating such of the old law as was not intended to be repealed by the 1928 act, and including in their entirety every one of the new provisions embodied in that act.

The new statute is known officially as the companies act of 1929, and in its character of a new broom sweeping completely away all previous legislation on the subject, it is worthy of a brief examination.

To attempt to treat any technical subject in narrative form is apt to call forth harsh criticism from more exacting students of that subject, so it may be well at the outset to emphasize that no endeavor will be made here to convey more than an indication of the more important changes resulting from the new enactment.

It is a curious fact that, prior to November 1, 1929, when the new statute took effect, there was apparently no legal obligation for a company to keep any books of account at all.

Certain it is that the old statutes presupposed accounts, as they provided for their audit and verification, but this is the first time that any definite requirement has appeared, and it is now imperative for every trading company to keep records of cash, sales and purchases of goods, and of assets and liabilities.

There had previously been no regulations controlling the length of time which might elapse before a new company exhibited its

first set of accounts to its members. As might be expected, this state of affairs led to much comment and complaint from unfortunate shareholders who were kept unaware of the progress of their investments for an undue period, and, more important still, it paved the way for more than a few successful defalcations.

It is now required that a newly formed company must produce complete accounts within eighteen months of the date of its incorporation, and thereafter at least once in every calendar year, and that such accounts must be laid before a general meeting of the company held within nine months after the date to which the accounts are made up.

Many consider that these provisions are still too lenient, and that owners should be given some statement of their company's progress at a much earlier date.

Time alone can show whether this contention is justified or not, but it is, perhaps, worth remarking that even under this new legislation it is apparently possible for a company to prepare its accounts on, say, January 31st, and then run right on until December 31st of the following year, thus having an unbroken period of practically two full years.

Another fruitful source of discontent amongst the investing public had been the growing tendency for published accounts to become increasingly condensed.

In many cases, even were the shareholder an expert accountant, the balance-sheet could have conveyed little to him, and this again, except that reference could be had to the auditor's report thereon, made it possible for these statements to become very misleading. Moreover, often where members inquired, at a general meeting, into the composition of items appearing in the accounts submitted to them they would be met with evasive and unsatisfactory answers.

There was, of course, the obvious argument in support of these condensed statements. Trade rivals, it was said, might otherwise be enabled to obtain helpful information; but disgruntled shareholders found little satisfaction in this explanation.

Those responsible for the drafting of the new act are to be congratulated on the fact that, while full disclosure is now imperative, few, if any, of the advantages of the old policy of secrecy have been foregone.

Assets, previously permitted to be grouped more or less at will, must now be distinguished as of either the fixed or floating class.

Each of the fixed assets must also indicate on what basis its value has been computed.

The act also specifies a somewhat extensive list of individual assets, each of which must appear as a distinct item on the balance-sheet of the company which is presented to the members. Goodwill and loans to directors may be mentioned as two typical examples of such assets.

But it must not be supposed that, merely on account of the absence of legal compulsion to the contrary, English companies, as a whole, had persisted in producing accounts without the desirable detail included.

This was not so. The vast majority was content to be guided by the auditors, who for the most part required accounts which were largely in accordance with the new legal requirements, but it must be borne in mind that the auditor of an English company is not in the same position to insist on the particular form of the accounts he is auditing, as is an auditor engaged in the United States by the directors of a corporation.

While on the subject of auditors, there are slight changes to be mentioned.

No person who was a director or any officer of a company could be the auditor of that company, under the old law, and the same restriction still holds good. It is extended, however, so that any person who is a partner or employee of an officer of the company is also now expressly excluded from eligibility to the auditorship.

The new statute confers upon the auditor an important right in that he is now entitled to attend any general meeting of the company at which any accounts which he has examined are laid before the members. And further, if at that meeting he wishes to make any statement with regard to the accounts he is legally permitted to do so.

It has already been said that loans to directors constitute one of those assets which must be separately featured on the balance-sheet.

This regulation, alone, is of no use. On occasion it has been found that, during the year, directors have borrowed huge sums of the company's funds, but just before the end of the fiscal year, have repaid the whole amount. There would thus be no loans outstanding at the date of the accounts, and therefore nothing to arouse suspicion in the minds of the owners. Yet, a few days after the year-end, the borrowing might recommence, with the same window-dressing operation in view when the end of the next fiscal

year came round. To meet the case, therefore, not only the final balance owing, but also amounts borrowed and repaid during the period covered by the accounts is required to be disclosed.

On the auditor is laid the duty of ensuring that this information reaches the shareholders, and if he is unable to get the necessary detail shown on the accounts he must disclose the position through the medium of his report.

Before the operation of the 1929 act it was comparatively unusual to read any published accounts in which the remuneration of the directors was shown.

It had been felt for some time that on this subject also some detailed information was often desirable, and provisions are now in force requiring the total amount of remuneration received by the directors from the company itself and its subsidiaries to be shown on the accounts of every company.

Unfortunately, however, much of the advantage of this section seems to have been lost by reason of a proviso which follows, to the effect that the emoluments of managing directors and those directors who hold salaried positions may be excluded from the aggregate figure which has to be disclosed.

Yet, as if to make up for the shortcomings of this section, a power is granted to the members of a company. If the holders of one fourth of the total voting power of the members so demand in writing, the directors must present to them a statement showing the aggregate amount received by the directors for each of the three preceding years. No director is, in this case, permitted exemption from disclosure, and the complete statement, when prepared, must be certified as correct by the company's auditors. The company, however, can resolve that the statement shall not be furnished.

A significant new provision, relating to the liability of auditors and directors, has been given a place in the new act.

It was formerly possible for a company to include in its articles or by-laws, a provision exempting the directors or auditors from any liability, even in the event of negligence or breach of duty.

However unbelievable it may appear, one occasionally met instances where this had been done, and in actual fact one of the most important company-law cases of recent years involved a company in whose articles such a provision appeared.

It was from this case that the obvious undesirability of such a state of affairs first became apparent, and it is now provided that

any attempt to limit the liability of directors or auditors in the event of negligence or breach of trust shall be absolutely of no legal effect.

A curious anomaly which previously existed has now been corrected by the new statute. Public companies were required under the 1908 act to file yearly with the registrar of companies a statement in the form of a balance-sheet, duly audited.

Of course, the intention was that the statement to be filed should be roughly an abridged version of the company's latest balance-sheet, for each respective year.

In the wording of the old act, however, this intention was not specifically stated, nor was there provided any date to which the statement must be made up.

Indeed, it is on record that on more than one occasion companies presented the same statement for filing year after year, and, theoretically, this seemed to be all that was literally required. But such statements were naturally not acceptable to the registrar, and occasion has now occurred to remedy the fault. The statement to be filed must now be a written copy of the last audited balance-sheet, certified as a true copy, and containing also a copy of the auditor's report thereon.

Prior to the passing of the 1929 act, a satisfactory definition of a subsidiary company had long been wanted.

For the first time in English company law such a definition has now been supplied, and inasmuch as there are many widely-differing interpretations put upon the term "subsidiary" it is of interest to quote the actual definition appearing in the act.

The relevant section is number 127 and it reads as follows:

"1. (*Sec. 127.*) Where the assets of a company consist in whole or in part of shares in another company, whether held directly or through a nominee, and whether that other company is a company within the meaning of this act or not, AND—

"(a) the amount of the shares so held is, at the time when the accounts of the holding company are made up, more than 50 per cent. of the issued share capital of that other company, or such as to entitle the company to more than 50 per cent. of the voting power in that other company; *or*

"(b) the company has power (not being power vested in it by virtue only of the provisions of a debenture trust deed, or by virtue of shares issued to it for the purpose in pursuance of those provisions), directly or indirectly, to appoint the majority of the directors of that other company,

“that other company shall be deemed to be a subsidiary company within the meaning of this act, and the expression ‘subsidiary company’ in this act means a company in the case of which the conditions of this section are satisfied.

“2. Where a company, the ordinary business of which includes the lending of money, holds shares in another company as security only, no account shall, for the purpose of determining under this section whether that other company is a subsidiary company, be taken of the shares so held.”

Having defined the subsidiary company, the act incorporates some welcome provisions to insure that members of any parent company shall be in a fair position to discern how the fortunes of the subsidiaries are faring.

Legally, prior to November 1, 1929, there was nothing to prevent a parent concern from taking credit for all dividends received from, or profits made by, those of its subsidiaries which were flourishing, and taking no cognizance of the fact that other subsidiaries were incurring losses.

The measures now in force to deal with this position require, first, that on the balance-sheet of the parent company there must appear a statement, signed by the same directors who sign that balance-sheet, showing in what manner the profits or losses of subsidiaries have been treated in the accounts of the parent company.

In particular, the statement must say how and to what extent provision has been made for the losses of any subsidiary, and to what extent, if at all, the losses of a subsidiary have affected the figure of profit or loss shown as the result of the parent company's activities. It is, however, expressly stated in the act that there shall be no legal necessity to disclose the actual amount of the profit or loss shown by any subsidiary.

Second, it is expressly required that where the auditors of any subsidiary have found it necessary to make a report which contains any sort of qualification then to the next balance-sheet of the parent company there must be annexed particulars of that qualification.

It is generally agreed that the act should have gone on to define exactly what is to be understood by the term “qualification,” as without such a definition the operation of the above provision can hardly fail to give rise to dispute.

Perhaps the most welcome of all the changes brought about by the new legislation, at any rate from the point of view of the

prospective investor, are those affecting prospectuses and offers for sale to the public of shares or debentures in a company.

Even under the old law any prospectus issued inviting the general public to subscribe for either shares or debentures was subject to severe rules which required full disclosure of all particulars of the company concerned, its directors, past record and so forth.

Had these rules functioned as they were intended to do, all would have been well; but they did not. It was not long before someone hit upon an ingenious idea to frustrate completely their application.

The method was simple in the extreme. The whole block of shares would be subscribed by an issuing house, the shares would be duly allotted, and from the company's point of view the matter was finished.

Of course, the issuing house would proceed to sell the shares to the public, but the circulars, press advertisements and other methods of advertising which were commonly used to bring the shares to the notice of the man in the street were not within the statutory definition of a prospectus, and thus not subject to any of the formulated rules.

The new provisions have effectively closed this loophole by extending the definition of a prospectus to include offers to the public of shares which have been allotted in this way.

Various additions and alterations have also been made to the rules themselves, but of these only three need be considered here.

When a company was making its first issue of shares, the prospectus had, under the old law, to name an amount which had to be received in subscriptions for the shares before the directors were permitted to make any allotments.

The idea of this minimum subscription was clearly to prevent the directors from proceeding to allot shares until the amount of capital taken up was at least sufficient to enable the company to start its activities properly.

This was another of the sections of the 1908 act for which a loophole was found, and it soon became a popular practice to name such a ridiculously low figure as the amount of the minimum subscription that the advantage of the provision was entirely lost.

It is now provided that this minimum amount to appear in the prospectus must be the result of an actual estimate by the directors of the company. An estimate must be made of the preliminary expenses of the company, of the cost of any property

which is to be acquired by the company, and of the amount required for working capital. The total of these three estimates, after deducting any amounts which are being provided otherwise than from the proceeds of this first issue, is the amount of the minimum subscription.

It has been the custom for many years to include in a prospectus some sort of a report of the past earnings of the company whose shares are concerned. But hitherto these reports were not subject to any legal restrictions and no standardization had been attempted respecting the form in which they were set out or the period with which they dealt.

An endeavor has been made in the new act to secure uniformity in this matter, and at the same time to insure that the information most vital to the prospective shareholder shall be disclosed.

In the prospectus the auditors of the company whose shares are being offered must report the profits of each of the three preceding years, and the report must state the rate of dividend paid for each of these three years with respect to each separate class of the company's shares. If in any year no dividend was paid, this must be plainly stated.

Further, if the proceeds of the issue are to be applied either wholly or in part to the purchase of any business concern, an additional report must be included in the prospectus on the profits of that concern for each of the three preceding years.

It is noteworthy that, while this second report need not be made by the auditors of the company, the act specifically requires that the names of the accountants who are responsible shall be shown in the prospectus.

The last of the prospectus regulations to be mentioned demonstrates very clearly the attitude of the legal authorities toward the advertising of shares which come to the public for subscription.

It had become practically the usual procedure for a company of any magnitude to issue a prospectus of its shares, generally through the medium of a national newspaper, irrespective of whether or not it required any subscription from the general public.

In many cases the prospectus would invite public subscription in spite of the fact that the issuers of the prospectus had already previously arranged for the whole of the issue to be taken up by their friends. It would then happen that those members of the

public who applied for shares would get their money returned with a letter to the effect that so great had been the response to the issue that no allotment could be made. The result of a large number of letters of this nature invariably caused the shares to be much in demand, thus enabling the allottees to dispose of their holdings at a substantial profit!

No doubt, therefore, with the intention of preventing this method of rigging the market for newly issued shares, the act now requires every prospectus to state how many of the shares offered have already been taken up, or have been underwritten "firm."

A section of the act which will do as much to prevent roguery as any other is that which relates to that ubiquitous person, the share-hawker. This gentleman would earn what was in many cases a thoroughly dishonest livelihood by the following means:

Having acquired odd lots of the most worthless shares money could buy, he would make a house-to-house canvassing trip. This, in itself, can be open to no objection, but it is to be feared that the houses to which most attention would be paid, would be those inhabited by rich and far-too-trusting persons who would fall easy victims to the plausible lies told by their visitors. Tales of new oil discoveries, rich seams in forgotten mines, a "certain merger" that was shortly to be made public, all were part of the hawker's stock-in-trade, and would be used without hesitation to lure money from the pocket of the credulous listener in exchange for a few shares in a probably defunct company.

Naturally when the victim finally discovered the facts of the case, it would be far too late in the day to hope for retribution. However, things will now be changed, and the share-hawker will now be honest or out of work. The statute has started its anti-hawking campaign with the provision that it is definitely illegal for any person "to go from house to house offering shares for subscription or purchase to the public, or any member of the public."

In addition to this, written offers are also made unlawful unless emanating from certain specified sources, and unless accompanied by various detailed statements regarding the shares offered and the company concerned.

In relation to these provisions, an amusing suggestion has been made.

Instances have already been given of the manner in which loopholes were found in former legislation and it seems that even this new act may not be quite watertight. The actual words of the statute, given above, prohibit the making of "house-to-house" offers of sale, yet the same section specifically states that the expression "house" shall not include an office used for business purposes. (This definition, incidentally, was necessary in view of the custom of members of the stock-broking community to approach each other with shares for subscription by means of inter-office visits.)

It has been suggested by a member of the legal profession that to go from house to office and office to house would not seem to be infringing the law, and it remains for someone with a spirit of bravado to put the matter to the test.

One of the most fundamental changes brought about by the new act is that machinery is now provided whereby shares may be issued at a discount. Formerly, while it was permissible to offer shares for subscription at a premium, it was theoretically impossible to attract subscription from the public by asking a price which was below the par value. I say theoretically with reason, as it was often quite possible to obtain virtually the same result as if the issue were actually made at a discount by taking advantage of the provisions permitting the payment of an underwriting or placing commission.

Incidentally there is good reason to believe that this somewhat indirect method will still continue to be used in spite of the new legislation, as the conditions to be complied with before any shares may be issued at less than par seem rather too strict to find popular favor. It is still not permissible to make an initial issue at a discount, and to be able to avail itself of the new provisions a company must have been entitled to trade for at least one year. Even then, not only must the members of the company authorize the issue by resolution, but the sanction of the court is required.

Moreover, after the permission of the court has been obtained, the shares must then actually be issued within the period of one month, and on the face of it this restriction seems to leave rather an inadequate space of time in which to make the necessary preparations.

There are many who have remarked in the past upon the absence from English company law of any provisions permitting

the issue of redeemable shares of any class. It has even been said that there was no possibility of a company's paying back its capital in any way other than in the form of dividends, or by going into liquidation.

While it is perfectly true that formerly it was not lawful to issue shares of a redeemable nature, the idea that capital could only be repaid by dividends or in the event of liquidation was totally erroneous. Provision was made, under section 40 of the old law, for accumulated profits to be paid to shareholders and treated as a reduction of the amounts paid up on their shares. It will be seen that this, if carried to its extreme point, at which the whole of the money paid on the shares would have been returned, would give practically the same result as if the shares were actually redeemable. But there would be one vital difference in that the shares could never be canceled under this section, for the law insisted that the shareholders must remain liable to repay the full nominal amount, should occasion arise and a call ever be made.

This section of the act was seldom used, and it is generally believed that the reason it became a "dead letter" was the distaste, inherent in the general public, for a share on which there was an uncalled liability.

In the new statute this old provision finds no place, and instead there appears a section permitting the issue of redeemable shares. This is not strictly the fundamental change that many would have us believe, but is merely an up-to-date version of section 40 of the 1908 act, under a new name.

As yet the privilege of issuing shares on a redeemable basis is limited. Only preference shares may be so issued, and a company must first have express authority in its articles.

The actual redemption may be effected only in one of two possible ways. The first is out of profits which would otherwise be available for dividend, and the second, from the proceeds of a new issue of shares made for the purpose.

It is important to note that at the date of the redemption the shares to be redeemed must be fully paid up.

The act specifies the accounting entries to be made when the redemption is effected out of profits available for dividends, and requires an amount equal to the cost of redemption to be transferred from accumulated earnings and put to the credit of a separate account to be called the "capital redemption reserve

fund." This fund must then be considered as part of the company's capital, and is, to all intents and purposes, fixed and unalterable, save for one important exception.

Should there be made to the shareholders a subsequent issue of bonus shares, it is permissible to use the amount standing to the credit of this capital redemption reserve fund in paying up the bonus shares so issued.

A further point worthy of note is that the inland-revenue department has made a concession in regard to these redeemable shares. When a new issue is made for the express purpose of redeeming a former issue it is provided that no stamp duty will be payable on the fresh issue except on the amount, if any, by which it exceeds the original issue.

In view of the recent announcement from the New York stock exchange demonstrating its disapproval of the way in which certain investment trusts have been in the habit of dealing in their own common stock, it is interesting to look for a moment at the attitude of the English statutes on this point.

Now, as always, it is absolutely illegal for any English company to become, either directly or indirectly, a shareholder of itself. But a possible method of evading even this unambiguous ruling had been found. There was previously nothing which prevented a company from lending its funds, and still less to prevent the borrower from buying the company's shares with the loan!

To put an end to this sort of evasion, the 1929 act has found it necessary to inquire still further into the details of the loans made from the coffers of a company. And it is now specifically forbidden for any company to give financial assistance of any kind, whether by loan, guaranty, or otherwise, for the purpose of or in conjunction with the purchase of any of its own shares.

A few necessary exceptions are made, however, as in the case of a company whose business it is to lend money, and also when it is the policy of the company to assist its employees to become shareholders.

As a result of this section auditors may well find themselves in embarrassing situations, as there seems no doubt that to fulfil their duties strictly they will now be obliged to inquire not only as to the authority for every loan but also as to the precise reason for which it is required.

Everywhere, with the steady march of commercial progress, has come an increasing number of mergers, amalgamations and

combines, and England has been no exception to the rule. Small wonder, then, that the old legal machinery for dealing with such reorganizations had become lacking in both speed and convenience.

Among the most essential of the new provisions must therefore be numbered those which arrange for a more speedy and economical completion of the transfers involved in normal amalgamations.

It was not unusual in the past for much time to be wasted and much expense incurred on account of a mere handful of minority shareholders who objected on some ground to the particular scheme of which the majority was in favor.

While the courts have by no means ceased to protect the minority interests, there is now a rule which prevents any scheme's being frustrated or delayed by any minority of less than 5 per cent. of the shareholders involved, unless, on appeal, the court is definitely of opinion that the whole arrangement is unfair and should be set aside. Moreover, this minority can now be compelled to sell its shares on the same terms as have been accepted by the majority.

In addition to this, the court is given the power, when a scheme for reconstruction or amalgamation comes up for sanction, to make any order it thinks fit in the particular circumstances. It may order, for example, that the appropriate assets and liabilities shall be transferred from the absorbed to the absorbing company, or that the transferor company shall be deemed to be dissolved.

The immense advantage of such court orders can well be imagined, as there ceases to be any need for the normal instruments of transfer, or the usual formality of liquidation proceedings, and the saving of both time and expense is therefore considerable.

There remains now one more section of the act to be considered. The foregoing alterations have related to the joint-stock company as a going concern, and it is fitting, therefore, to add in conclusion a few words on liquidation.

Under previous statutes there were, in general, two methods by which a company could go through this process.

There was the "compulsory" method which involved an application to the court, and left the liquidator restricted in authority and obliged to obtain the court's sanction of most of his actions; and there was the "voluntary" method, which left the winding-up of the company in the hands of a liquidator whose au-

thority was derived from the creditors and the members of the company.

Actually there existed still another method which gave the court part powers of supervision over the liquidation proceedings, but with this process we are not concerned.

With the compulsory method there was no fault to be found, and it is virtually unchanged in the new legislation. But the objections to the old voluntary method were several. Mainly, they hinged on the question of the extent to which creditors of a company should be entitled to take part in or control the liquidation proceedings.

Under the former law on this point the liquidator in a voluntary liquidation was obliged to call a meeting of creditors, as soon as he was appointed, and the extent to which he was controlled by those creditors was considerable. For example, the creditors could, if they wished, apply to the court for the removal of the liquidator appointed by the company and the appointment of someone else in his place; or they could appoint a committee to control his actions.

This was all very well when the company was insolvent and the creditors were therefore justified in wishing to assure themselves of getting as much of their dues as possible.

But it not infrequently happened that a company, without being insolvent, wished to wind up by voluntary method for some reason.

Even in such a case, although there might be not the slightest doubt that the creditors would all receive their money in full, the same regulations had to be observed and the creditors exercised the same extent of control. This was naturally felt to be rather unfair, and the amending provisions incorporated in the 1929 act were therefore warmly received.

A voluntary liquidation is now divided into two sections: one for the case of the solvent company and the other for the insolvent.

To be entitled to come under the first head the directors of a company about to go into liquidation are obliged to make a declaration to the effect that, in their opinion, the company will be able to pay all its debts in full within one year from the commencement of liquidation. Having done this, the liquidation may be carried out as an entirely domestic affair, and the creditors have no voice in the proceedings.

Should no declaration be forthcoming, however, the company automatically falls within the second or insolvent class, and throughout the liquidation the liquidator is guided primarily by the creditors and only to a less extent by the members of the company.

Students' Department

H. P. BAUMANN, *Editor*

[NOTE.—The fact that these solutions appear in THE JOURNAL OF ACCOUNTANCY should not cause the reader to assume that they are the official solutions of the board of examiners. They represent merely the opinions of the editor of the *Students' Department*.]

OHIO C. P. A. EXAMINATION QUESTION

This department has been requested to solve the following problem set by the Ohio state board of accountancy in its examination in practical accounting held Thursday, May 15, 1930:

PROBLEM 3

The directors of the Real Construction Company have requested a statement of the real estate construction operations separate from all other departments of the company for the year 1928. They have organized a new corporation for the purpose of operating a real estate construction business and the transfer of assets and liabilities is to be made, excluding any cash, as of January 1, 1929.

Trial balance of the real estate construction department as of January 1, 1928 was determined to be as follows:

Mortgages receivable	\$21,800	
Instalment sales contracts	48,400	
Real estate—land	51,300	
finished construction	54,600	
construction in process	13,200	
Construction equipment	4,950	
Accounts payable		\$22,420
Mortgages payable		72,500
• Reserve for depreciation:		
Real-estate construction		6,740
Construction equipment		1,850
Discount on mortgages		1,620
Unrealized profit on instalment sales		6,050

The records show that during the year construction in process was completed with \$2,400 for lumber, roofing, etc., and \$2,800 for subcontracts. New construction completed, cost \$34,000 for lumber, roofing, etc., and \$78,000 for subcontracts.

Construction sales were as follows:

	Five houses built 1927	Eight houses built 1928
Sale price (each)	\$7,000	\$8,500
Mortgage payable (each)	3,500	4,000
Cost of land (each)	800	1,000
Cost of construction (each)	4,800	5,500

Payments received during the year on these sales were found to be 25 per cent. on two of the houses built in 1927, 20 per cent. on four of the houses built in 1928 and 50 per cent. on all other sales. Rents received on houses rented pending sales were found to be credited correctly to rent-income account. Other payments included in receipts were: \$12,000 on instalment sales contracts, the realized profit being \$1,500; on mortgages receivable \$4,800 and on mortgages payable for new construction \$72,000.

Liabilities of the real estate construction department at January 1, 1929, for accounts payable were \$38,800.

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You are to provide depreciation as follows:

Real-estate construction	5%
Construction equipment	10%
Plant buildings	5%
Plant equipment	10%
Automobile equipment	25%

Provide 50 per cent. of these rates where information shows that the assets were acquired or completed during the year.

Adjustment for prepaid items and accruals have been recorded. Closing inventory of lumber, roofing, etc., was \$54,800.

Trial balance of the books at December 31, 1928 was as follows:

Cash	\$ 7,850	
Accounts receivable	51,800	
Notes receivable	16,600	
Mortgages receivable	17,000	
Instalment-sales contracts	101,600	
Inventory—lumber, roofing, etc., 1/1/28	78,420	
Real estate—land	51,300	
finished construction	171,800	
construction in process	13,200	
Securities owned	5,000	
Plant—land	18,480	
buildings	47,500	
equipment	18,300	
automobile equipment	22,400	
Construction equipment	7,050	
Prepaid accounts	1,790	
Accounts payable		\$ 59,700
Notes payable		31,200
Mortgages payable		95,000
Accrued accounts		11,420
Reserve for doubtful accounts		6,500
Reserve for depreciation:		
Plant—buildings		8,500
equipment		3,850
automobile equipment (selling)		9,800
Construction equipment		1,850
Real-estate construction		6,740
Discount on mortgages		820
Unrealized profit on instalment sales		6,050
Capital stock		150,000
Earned surplus		43,340
Sales—lumber, roofing, etc.		463,900
real-estate construction		103,000
miscellaneous yard		12,800
Purchases—lumber, roofing, etc.	256,300	
miscellaneous yard	6,340	
Overhead expense—plant	88,800	
construction	7,400	
Selling expense	14,800	
Administrative expense	12,820	
Interest expense	8,500	
Interest income		2,380
Rent income—real-estate construction		8,200
Total	\$1,025,050	\$1,025,050

Disregard cents in your calculation and round out to the nearest dollar.

Prepare:

Statement of profit and loss of real-estate construction department for year 1928.

Students' Department

Journal entries to transfer assets and liabilities of real-estate construction department to new company, using 5,000 shares of no-par stock.

Balance-sheet of Real Construction Company at January 1, 1929 (after the transfer) including as a liability the federal income tax reported upon the instalment-sales basis.

Solution:

Explanatory Adjusting Entries

(1)

Cost of houses sold.....	\$ 12,000	
Real estate—land.....		\$ 12,000
To record the cost of land sold with houses:		
1927 construction—5 at \$ 800.....	\$ 4,000	
1928 construction—8 at 1,000.....	8,000	
	\$12,000	
	\$12,000	

(2)

Cost of houses sold.....	68,000	
Real estate—finished construction.....		68,000
To record cost of construction of houses sold:		
1927 construction—5 at \$4,800.....	\$24,000	
1928 construction—8 at 5,500.....	44,000	
	\$68,000	
	\$68,000	

(3)

Depreciation—real-estate construction.....	5,660	
Reserve for depreciation—real-estate construction...		5,660
To record depreciation for the year:		

	Amount	Rate	Depreciation
On hand—Jan. 1, 1928...	\$ 54,600	5%	\$2,730
Constructed during year.....	117,200	2½	2,930
	\$171,800		\$5,660
	\$171,800		\$5,660

(4)

Reserve for depreciation—real-estate construction.....	2,300	
Cost of houses sold.....		2,300
To clear the depreciation reserve account of the accumulated depreciation on the houses sold:		

	Amount	Rate	Depreciation
1927.....	\$24,000	5%	\$1,200
1928.....	44,000	2½	1,100
	\$68,000		\$2,300
	\$68,000		\$2,300

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(5)			
Depreciation—construction equipment	\$600		
Reserve for depreciation—construction equipment . .			\$600
To record depreciation for the year:			
	Amount	Rate	Depreciation
On hand—Jan. 1, 1928	\$4,950	10%	\$495
Additions	2,100	5	105
	<u> </u>		<u> </u>
Total	<u>\$7,050</u>		<u>\$600</u>
(6)			
Depreciation—plant buildings	2,375		
Reserve for depreciation—plant buildings			2,375
To record depreciation for the year at the rate of 5% per annum—no changes given. 5% of \$47,500.			
(7)			
Depreciation—plant equipment	1,830		
Reserve for depreciation—plant equipment			1,830
To record depreciation for the year—no changes given.. 10% of \$18,300.			
(8)			
Depreciation—automobile equipment	5,600		
Reserve for depreciation—automobile equipment . . .			5,600
To record depreciation for the year—no changes given.. 25% of \$22,400.			
(9)			
Inventory—Lumber, roofing, etc.—Dec. 31, 1928	54,800		
Purchases—Lumber, roofing, etc.			54,800
To set up closing inventory.			
(10)			
Accounts payable	38,800		
Accounts payable—real-estate construction dept. . . .			38,800
To transfer the accounts payable of the real-estate construction department.			
(11)			
Unrealized profit on instalment sales	1,500		
Gross profit on instalment sales			1,500
To transfer realized profit on collections of \$12,000 on instalment sales contracts.			
(12)			
Sales—real-estate construction	103,000		
Gross profit on instalment sales			103,000
To transfer the sales for the year.			
(13)			
Gross profit on instalment sales	77,700		
Cost of houses sold			77,700
To transfer the cost of houses sold during the year.			

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(14)

Gross profit on instalment sales.....	\$16,035	
Unrealized profit on 1927 houses.....		\$4,920
Unrealized profit on 1928 houses.....		11,115
To set up the unrealized profit on houses sold.		

The gross profit on each house sold during the year may be set up as follows:

	1927 construction	1928 construction	
Sales price.....	\$7,000	\$8,500	
Cost of construction.....	\$4,800	\$5,500	
Less: depreciation:			
5 %.....	240		
2½ %.....		137	
Net cost of construction.....	\$4,560	\$5,263	
Cost of land.....	800	\$5,360	1,000
		\$2,137	\$6,362
Gross profit (each).....	\$1,640	\$2,137	

The computation of realized and unrealized gross profit, based upon the collections during the year, follows:

	Number	Per cent.	Gross Profit		
			Amount	Realized	Un-realized
1927 construction:					
	2	25%	\$ 3,280	\$ 820	\$ 2,460
	3	50	4,920	2,460	2,460
Total 1927.....	5		\$ 8,200	\$3,280	\$ 4,920
1928 construction:					
	4	20%	\$ 8,550	\$1,710	\$ 6,840
	4	50	8,550	4,275	4,275
Total 1928.....	8		\$17,100	\$5,985	\$11,115
Total all sales.....	13		\$25,300	\$9,265	\$16,035

(15)

Profit and loss—current year.....	\$8,416
Federal income taxes payable.....	\$ 8,416
To record the federal income taxes for the year.	

Under the income-tax regulations, the sales upon which 25% and 20% payments were received, may be considered as instalment sales. Those sales upon which 50% payments were received should be considered as sales on account, the profit on which must be reported during 1928. Accordingly, the profit recorded on the books as unrealized on the sales of these (50%) houses should be added to the profit per books to obtain the amount of the taxable income.

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Profit per books (see working papers) of all departments.....		\$63,400.00
Profit on sales recorded as unrealized:		
1927 construction—(3 houses).....	\$2,460.00	
1928 construction—(4 houses).....	4,275.00	6,735.00
		\$70,135.00
Taxable at 12%.....		\$ 8,416.20

Statement of profit and loss of real-estate construction department
for the year ended December 31, 1928

Sales.....		\$103,000
Cost of sales:		
Land.....	\$12,000	
Finished construction.....	65,700	77,700
		\$ 25,300
Gross profit on sales.....		1,500
Add—gross profit realized on sales of prior year.....		\$ 26,800
Total gross profit.....		16,035
Deduct—unrealized gross profit on sales of current year.....		\$ 10,765
Gross profit realized.....		8,200
Rent income.....		\$ 18,965
Gross profit and income.....		\$ 5,305
Expenses:		
Depreciation:		
Real-estate construction.....	\$5,660	
Construction equipment.....	600	\$ 6,260
Overhead expense.....		7,400
		\$ 13,660
Profit for the year, before selling, general and administrative expenses, and federal taxes.....		\$ 5,305

Because of insufficient information, no attempt was made to allocate selling, general or administrative expenses, or financial income or expense, to the real-estate construction department.

Journal entries to record the transfer of the assets and liabilities
of the real-estate construction department

Real Estate Construction Co.—vendee.....	\$281,950	
Mortgages receivable.....		\$ 17,000
Instalment-sales contracts.....		101,600
Real estate—land.....		39,300
Real estate—finished construction.....		103,800
Real estate—construction in process.....		13,200
Construction equipment.....		7,050
To record the transfer of the assets.		

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Accounts payable	\$38,800	
Mortgages payable	95,000	
Reserve for depreciation—real-estate construction	10,100	
Reserve for depreciation—construction equipment	2,450	
Discount on mortgages	820	
Unrealized profit on instalment sales	4,550	
Unrealized profit on (1927) houses	4,920	
Unrealized profit on (1928) houses	11,115	
Real Estate Construction Co.—vendee		\$167,755
To record transfer of liabilities and unrealized profits.		
 Investment in Real Estate Construction Co.	 114,195	
Real Estate Construction Co.—vendee		114,195
To record receipt of 5,000 shares of no par value in payment for net assets of real-estate department.		

REAL CONSTRUCTION COMPANY

Balance-sheet—December 31, 1928

(After giving effect to the sale of the net assets of the
real-estate construction department)

Assets

Current assets:			
Cash		\$ 7,850	
Accounts receivable	\$51,800		
Less: reserve for doubtful accounts	6,500		
	45,300		
Notes receivable		16,600	
Inventory—lumber, roofing, etc.		54,800	
		\$124,550	
Investments:			
Real Estate Construction Co. (entire authorized issue of 5,000 shares, no par value)		\$114,195	
Other securities		5,000	
		119,195	
Prepaid accounts			1,790
Fixed assets:			
	Cost	Reserve for depreciation	Book value
Land	\$18,480	\$	\$ 18,480
Buildings	47,500	10,875	36,625
Equipment	18,300	5,680	12,620
Automobile equipment	22,400	15,400	7,000
	\$106,680	\$31,955	\$74,725
Total	\$106,680	\$31,955	\$74,725
			74,725
			\$320,260

REAL CONSTRUCTION COMPANY

Working Trial Balance—December 31, 1928

	Trial balance December 31, 1928	Adjustments	Transfer of real- estate construction department	Profit and loss	Balance - sheet, after sale of assets of real- estate department
	Debit	Debit	Debit		
Mortgages receivable.....	\$ 17,000		\$ 17,000		
Instalment sales contract.....	101,600		101,600		
Real estate—land.....	51,300	(1) \$12,000	39,300		
Real estate—finished construction.....	171,800	(2) 68,000	103,800		
Real estate—construction in process.....	13,200		13,200		
Construction equipment.....	7,050		7,050		
Accounts payable—real-estate construc- tion department.....		(10) 38,800	\$ 38,800		
Mortgages payable.....	\$ 95,000		95,000		
Reserve for depreciation—real-estate con- struction.....	6,740	(4) \$ 2,300	5,660		
Reserve for depreciation—construction equipment.....	1,850	(5) 600	2,450		
Discount on mortgages.....	820		820		
Unrealized profit on instalment sales.....	6,050	(11) 1,500	4,550		
Cash.....	7,850				\$ 7,850
Accounts receivable.....	51,800				51,800
Notes receivable.....	16,600				16,600
Inventory—lumber, roofing, etc.....	78,420			\$ 78,420	
Securities owned.....	5,000				5,000
Plant—land.....	18,480				18,480
Plant—buildings.....	47,500				47,500
Plant—equipment.....	18,300				18,300
Plant—automobile equipment.....	22,400				22,400
Prepaid accounts.....	1,790				1,790
Accounts payable.....	59,700	(10) 38,800			\$ 20,900
Notes payable.....	31,200				31,200
Accrued accounts.....	11,420				11,420
Reserve for doubtful accounts.....	6,500				6,500
Reserve for depreciation—plant building.....	8,500	(6) 2,375			10,875

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Reserve for depreciation—plant equipment								5,680
Reserve for depreciation—auto (selling)								13,400
Capital stock								150,000
Earned surplus								43,340
Sales—lumber, roofing, etc.								
Sales—real-estate construction								
Sales—miscellaneous yard			103,000					463,900
Purchases—lumber, roofing, etc.	256,300							12,800
Purchases—miscellaneous yard	6,340							54,800
Overhead expense—plant	88,800							
Overhead expense—construction	7,400							
Selling expense	14,800							
Administrative expense	12,820							
Interest expense	8,500							
Interest income	2,380							2,380
Rent income—real-estate construction	8,200							8,200
Federal income taxes payable								
Cost of houses sold		(16)				8,416		8,416
Depreciation—real-estate construction		(1)	12,000					
Depreciation—construction equipment		(2)	68,000					
Depreciation—plant buildings		(3)	5,660					5,660
Depreciation—plant equipment		(5)	600					600
Depreciation—automobile equipment		(6)	2,375					2,375
Gross profit on installment sales		(7)	1,830					1,830
		(8)	5,600					5,600
		(13)	77,700			1,500		
		(14)	16,035			103,000		
					4,920			
		(16)	8,416		11,115			
Unrealized profit on 1927 houses							114,195	54,984
Unrealized profit on 1928 houses								
Profit and loss—current year								
Real Estate Construction Co.—investment								
Real Estate Construction Co.—capital								
Inventory—lumber, roofing, etc.—Dec. 31,								
1928					114,195			
Total	\$1,025,050	\$1,025,050	\$398,616	\$281,950	\$281,950	\$552,845	\$552,845	\$358,715
								\$54,800
								\$358,715

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Liabilities and net worth

Current liabilities:

Accounts payable	\$ 20,900		
Notes payable	31,200		
Accrued accounts	11,420		
Income tax payable	8,416		
			\$ 71,936

Net worth:

Capital stock	\$150,000		
Surplus:			
Balance, January 1, 1928	\$43,340		
Profits for the year, after provision for federal income taxes	54,984	98,324	248,324
			\$320,260

Book Reviews

FUNDAMENTALS OF AUDITING, by J. F. SHERWOOD and D. J. HORNBERGER. *South-western Publishing Co.*, Cincinnati. Cloth, 341 pages.

In Messrs. Sherwood and Hornberger's *Fundamentals of Auditing* we have a somewhat new line of attack in teaching practical auditing through text-books. Briefly, the method, presumably that used in the University of Cincinnati and Ohio Wesleyan University, is as follows:

The auditing programme is arranged in the order of the standard balance-sheet, and a chapter is devoted to each item of it. Each chapter begins with a schedule of the sub-items in that class in the form that any well-prepared audit programme would assume. Then follows a brief description of each sub-item with clear instructions as to what facts are to be ascertained with reference to them. This is followed by the standard procedure of auditing as prescribed in the *Verification of Financial Statements* prepared for the federal reserve board by the American Institute of Accountants. The next feature, a novel one in text-books as far as I know, is a narrative account of the application of this standard procedure by a staff consisting of one senior and two junior auditors, telling what they are assumed to have discovered, what they did in the circumstances stated, and how they recorded the facts on their working papers. Finally the working papers are turned over to one of the partners of the auditing firm, and his report and certificate close the illustrative audit.

There are other chapters on special audits and investigations, and the book is well illustrated with the usual forms, examples of adjusting entries, etc. A summary at the close of each chapter serves as a review, and questions prepared by the authors or taken from actual Institute and C. P. A. examination papers furnish good tests for the student.

In the preface the authors state that they have endeavored to develop the subject from the viewpoint of the student, and they seem to have succeeded. One gets the impression in reading each chapter that the text answers questions that would naturally be asked by any beginner—"What do I do now? Why? What is the standard practice in the profession? How do I do this or that?" And education after all is mainly a matter of satisfying intelligent curiosity.

W. H. LAWTON.

APPRAISERS AND ASSESSORS' MANUAL, by W. L. PROUTY, J. W. COLLINS and FRANK H. PROUTY. *McGraw-Hill Book Co., Inc.*, New York. 500 pages.

A casual review of *Appraisers and Assessors' Manual* inspires a confidence that the subject matter has been carefully considered and is presented in an orderly and readily understandable manner. The experience in Chicago of having police precinct captains make valuations of real property for taxation purposes with political colorings finds no place in this treatise on the scientific valuation of real estate and buildings.

Taxation of real and personal property is confronted with a basic problem in the determination of fair values for the property subject to tax. Due to great varieties and kinds of property, the average governmental assessor is con-

fronted by conditions quite beyond his experience, and without impartial guidance he is in a position unwittingly to cause great injustice either to the taxpayer or to the municipality.

The chapters devoted to determining building and labor costs, together with the comparative tables and units of cost used in various leading cities of this country furnish comparative data that will prove of inestimable assistance to all who may be interested in establishing or confirming building values.

The chapter on establishing a system for land appraisals is of unusual interest in that it presents the best features of many systems. Due credit for their systems is given William A. Somers of St. Paul, John A. Zangerle of Cleveland, Judge Hoffman and many others who have pioneered in this field. This chapter alone is an invaluable addition to a technical library.

Chapters on assessors' valuation of industrial plants, merchandise and intangible property are replete with many valuable and practical suggestions.

The authors are to be congratulated on their concise presentation of a most complex subject; and anyone interested in property values, especially those whose responsibility it is to pass on property values, will find in this manual a wealth of assistance in drawing conclusions.

HERBERT M. TEMPLE.

CENTURY DICTIONARY. *The Century Company*, New York. 2 volumes, 2792 pages.

The wits of all ages since dictionaries first were published have been trying to say something original in reviewing publications of this sort. There is not good continuity. The plot lacks clarity and purpose. The style is jerky. Probably these things are said because there is not much that one can say about a dictionary except that it is good. There has never been a wholly bad one. Some part of the work must have merit. But perhaps one may say that a dictionary is better than that or than those, and if so let it be said of the new *Century Dictionary* that it seems to comprise more in a comparatively small compass than any other of which there is general knowledge. There are portions of it that I have not read, but at least those that I have read are helpful. The *Century Dictionary* is one of the classic authorities and a new edition is a matter of moment. The edition now appearing is published in two volumes, easily handled—that is, easy as dictionary handling goes—and its price is so low that—really one should write to the publishers to find out about it. It seems that there must have been a mistake. However that may be, I am glad to have the volumes on my desk.

A. P. RICHARDSON.

HANDBUCH FUER DAS REVISIONS—UND TREUHANDWESEN, by WILHELM VOSS. *C. E. Poeschel Verlag*, Stuttgart, Germany, 1930. 500 pages.

In his preface the author states as his principal object the comprehensive and systematic presentation of accountancy—especially auditing—as a science and a profession. By way of introduction he relates the necessarily haphazard way wherein single problems at first were treated and solved as they presented them-

Book Reviews

selves. In the attempt to outline a general theory the diverse data are used more or less like bits of stone in a mosaic. He intends to formulate the general problem and give the design of a pattern that will show the lines of inner unity and order. He mentions the antitheses of theory and practice and his desire to make his book serve both.

The book deals with the development of accountancy as a profession and with its condition and functions. It is divided in two parts. The first gives an historical review of the profession in general and the development of the numerous societies and institutes in Germany and other European countries and in the United States.

The second part deals with general practice, especially in Germany, types of audits and investigations, their field and scope, limitations imposed, methods of approach, the auditor's duties and responsibilities and like general subjects.

Separate chapters are devoted to the technique of the different kinds of audits and verifications, investigations, etc. The form and meaning of the certificate is fully discussed and considerable space is given to the audit report.

The author has not produced a text-book in the accepted meaning of the word. Only very broad directions are given concerning the audit of assets and liabilities, earnings and expenses, purchases, sales, payrolls, inventories, etc. In fact they are more like statements of principle.

There is discussion of the German law of 1889 making the audit of corporations obligatory, the governmental audit of tax returns, the advantages of coöperation between federal and private auditors, receiverships and trusteeships, and the auditor as business expert before the courts and as tax expert.

An appendix to the second part contains the rules and regulations of certain bodies governing the appointment of public accountants, general rules for the entrance examinations to various societies and institutes, a discussion of the basis of charges for work done, including schedules of permissible minimum charges, an audit programme, lists of current literature, etc.

The book deals primarily with conditions in Germany and thus seems of interest only to the student of these conditions. Its perusal will impart interesting knowledge of the difference between the continental European and the British and American attitude and opinion in matters of audit.

A. VAN OSS.

Accounting Questions

[The questions and answers which appear in this section of THE JOURNAL OF ACCOUNTANCY have been received from the bureau of information conducted by the American Institute of Accountants. The questions have been asked and answered by practising accountants and are published here for general information. The executive committee of the American Institute of Accountants, in authorizing the publication of this matter, distinctly disclaims any responsibility for the views expressed. The answers given by those who reply are purely personal opinions. They are not in any sense an expression of the Institute nor of any committee of the Institute, but they are of value because they indicate the opinions held by competent members of the profession. The fact that many differences of opinion are expressed indicates the personal nature of the answers. The questions and answers selected for publication are those believed to be of general interest.—EDITOR.]

LOSS ON OPERATION OF BUILDING

Question: Is it proper in any circumstances to capitalize the loss for the first year's operation of a new office building? I do not refer, of course, to carrying charges during construction but have in mind the fact that it usually takes some time to get a new building fully rented and the question is whether this loss could be properly capitalized?

Answer: I do not know of any circumstances in which it would be advisable to capitalize the loss resulting from the first year's operations of a new office building.

It is, of course, often true that for the first year at least the building is not fully occupied and, therefore, the loss in operation results. This loss, however, might continue for the second, third and fourth years and, therefore, this contingency would seem to preclude the arbitrary capitalization of losses at the end of the first, second, third or fourth years. The results of operation should be measured from the date the building was completed and ready for occupancy.

Answer: In reply to the question "Is it proper in any circumstances to capitalize the loss for the first year's operations of a new office building?" there necessarily must be a dividing line between preparing to operate and operating, and ordinarily the line falls between the two distinct periods of construction and operating for profit. When there is a no-man's land between the two we have to deal with an intermediate net expense which strictly speaking is neither capital charge nor operating item and this in-between period, of course, is measured not by time but by results.

In the analogous situation of most new mills, starting-up expense is common, and we believe the customary view is that such expense is a proper charge against profits but not the whole amount against the profit of any one year, the theory doubtless being that starting-up expense benefits all years. Theoretically exact treatment would apportion such expense over the entire life of the project, but that being unknown the usual practice is to care for it over the fewest number of years which conveniently can absorb it.

Accounting Questions

Our suggestion in answer to the specific question therefore would be to mark the first month in which current rental equals current expense as the beginning of the true operating period and treat as a deferred charge, to be written off proportionately over a reasonable number of years, the net expense of the prior partial or partially effective operation.

Answer: This is one of the border-line questions. I always advocate the sound practice of capitalizing as little as possible. Your question goes on to exclude specifically "carrying charges during construction," which are of course permissible and indeed proper. It is difficult to say that in no conceivable circumstances would a certain course be proper. For instance, I can imagine the erection of a large office building or apartment house in a newly developed section or in a part of the town or city not yet fully developed. In this case the land would be relatively cheap, but the building would be erected with the full knowledge that it was in anticipation of future requirements. It might easily happen that the building was only half rented for the first two or three years, but on the other hand by the time it was fully rented, bringing in a good revenue, the further developments of the district would have added considerably to the land value.

In such a case as the foregoing, where it is beyond doubt that real-estate values are going up and it was foreseen that there would have to be losses for one or more years, I think it would be proper to capitalize the proportion of interest and taxes applicable to the unrented portion of the building, but a case like this would have to be considered on its merits and no hard and fast rule could be laid down. I do not think any portion of operating expenses should be capitalized because they are for the benefit of the tenants and the vacant space will not require any proportionate outlay for operation.

A question may be raised as to whether the items of interest and taxes and of accrued operating expenses, or, as an alternative, the net loss on operating could not be carried forward as a deferred charge. In many cases this might be preferable to capitalizing the amount, as deferred charges are always assumed to be written off within three or five years at the most.

ACCOUNTANTS' CERTIFICATES

Question: It has come to our attention that some of our accountants are having printed on the front sheet of their report the following:

"Our certificate or report upon an audit or examination is delivered to client upon express condition that any advertisement, publication or copy therefrom of such certificate or report, shall be in exact form submitted. Any modification must be approved by us in writing before any such advertisement or publication."

We would be glad to have you advise us in reference to this statement as to whether it is being done generally, or is it only locally, and if it would be advisable to put such a statement on the report?

Answer: In reply to your inquiries regarding a form of notice which is expressed in the letter relating to the advertisement, publication or copy of an accountant's report submitted to a client, we would say that we have noticed such a statement only in a few instances. It is our opinion that the use of such a notice on an accountant's report is not a general practice.

It is somewhat difficult to answer your question as to whether it would be advisable to place such a notice on a report to a client. About the only reply we could make is that it would be advisable wherever it appears to be necessary. To use it has never seemed to be necessary and, therefore, we have never used the form. Our clients seem generally to recognize the impropriety of modifying any form or statement made in a report to them and so far as we are aware no client of ours has ever used our name in publication without first consulting us and obtaining our approval as to the form of the matter to be used.

We are somewhat reluctant to make suggestions affecting the practice of any other accountants because we believe that in all cases such practices depend largely upon the varying natures of the clients. Accordingly, it appears to us that we could only repeat our suggestion expressed above, that it is advisable to use such a form in any case where it would appear necessary, giving due regard to the standing and reputation of the client.

Answer: In reply to your inquiry we would advise you that it is not our practice, nor do we think it is likely that we shall adopt the practice, to print in our reports any such statement of limitation as the one quoted by your correspondent. We have occasionally seen such a statement in reports of other firms but we do not think that the custom is a general one.

Answer: Our reports are issued subject to the following restriction in regard to reproduction by the client:

“Our reports and certificates are issued on the understanding, with regard to publication, that unless they are reproduced in their entirety, any summaries thereof, excerpts therefrom, or references thereto, shall be submitted to us for our approval before they are published.”

This wording is printed at the foot of the first page of the report.

For your information, somewhat similar restrictions with regard to the reproduction of their reports are imposed by other nationally known accounting firms, but we are not in a position to advise you as to the exact phraseology.

AUDIT OF BOOKS OF MEMBERS OF THE NEW YORK STOCK EXCHANGE

Question: Will it be possible to obtain an expression of opinion as to the proper methods to pursue in the following situation?

“A” is engaged in auditing the books of a member of the New York stock exchange. He finds in the customers’ ledger accounts in the names of various persons for whom there is no address, i.e. statements are delivered to the customers at the main office, and other accounts in the name of persons whose addresses are given as “care of” one of the branch offices. “A” also finds various numbered accounts and is advised that those are the accounts of certain persons whose names and addresses are furnished.

To what extent should such customers’ accounts be verified, having in mind the requirements of the committee on business conduct of the New York stock exchange and the provisions of the usual fidelity bond carried by brokers?

Answer: Request should be made for names and correct addresses of all customers for the purpose of obtaining direct confirmation of all customers’ accounts. If one can not obtain permission to send letters of confirmation to

Accounting Questions

certain customers whose accounts are identified by numbers only, or to any other customers, a certificate as to the correctness of accounts of such customers should be obtained from the firm under audit, signed by all the partners of that firm, and the auditor's report should be qualified by a careful statement of the facts.

Answer: If the firm whose books are being examined carries any accounts for its employees, it is our custom to distribute their statements directly to them ourselves. When it is the firm's practice to deliver statements to customers at the main office, we obtain the home or business addresses of such customers and mail statements with request for confirmation directly to them. In cases where we find that the customers' addresses are in care of branch offices or salesmen, we insist upon procuring proper home or business addresses in order that the accounts may be confirmed directly with the customers.

If the customer has authorized the broker, in writing, to hold all notices and confirmations for his account, such authorization is called for and examined by us. If the customer has given a partner of the firm, in writing, discretionary power over his account, we examine the letter. If we are satisfied that the letter is from a bona-fide customer and represents his wishes, we accept confirmation from the partner or other person designated by the customer to handle the account.

If the information which we require properly to confirm the customers' accounts is not forthcoming, we set up such accounts in a separate group in the report and questionnaire, stating the reason why they were not confirmed.

Answer: In order to verify customers' accounts in a manner that is acceptable to the committee on business conduct of the New York stock exchange, one should obtain the signature of each customer to a confirmation statement. Either give the statement by hand personally to the customer and obtain his signature or mail the statement. If customers do not reply, send by registered mail the second requests for confirmation. Visit branch offices personally and hand out statements. Never give statements to an office manager to be in turn given to customers. Either obtain a confirmation from the customer or a registered letter receipt from the post office to show delivery.

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[Photostatic reproductions (white printing on a black background) of most of the articles listed in THE JOURNAL OF ACCOUNTANCY or *Accountants' Index* may be obtained from the library of the American Institute of Accountants, 135 Cedar Street, New York, at a rate of 25 cents a page (8½ in. x 11 in.), at 35 cents a page (11½ in. x 14 in.), plus postage. Members and Associates of the American Institute of Accountants are entitled to a discount of 20 per cent. Identify the article by author, title, name of periodical in which it appeared, date of publication and paging. Payment must accompany all orders.]

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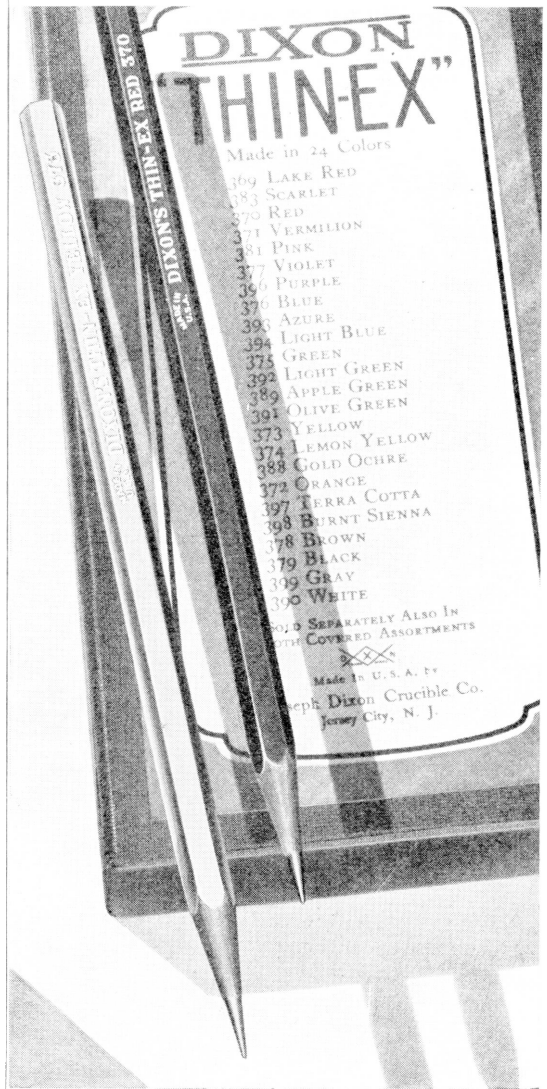
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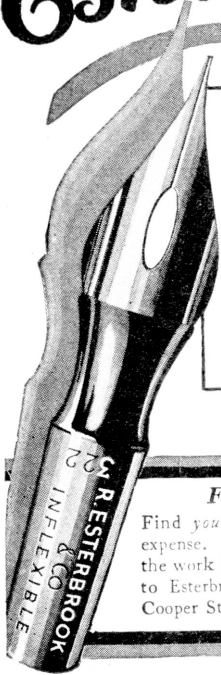
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