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American Woman's Society of Certified Public Accountants

American Society of Women Accountants

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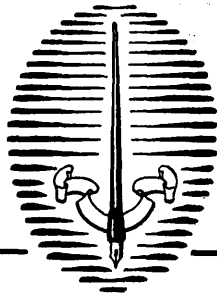
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Official Publication

AMERICAN WOMAN'S SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN SOCIETY OF WOMEN ACCOUNTANTS

to
Candidates
for the

C. P. A.
EXAMINATION

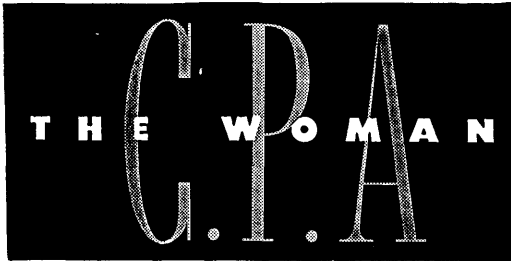
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EDITORIAL

NEW EDITOR

Sincere thanks are extended to Virginia Thrush, retiring Coast-to-Coast editor who has so efficiently and capably served the magazine during her term of office.

With this issue, our new Coast-to-Coast editor, Hazel Brooks Scott of the Los Angeles Chapter, makes her initial contribution. Hazel Brooks Scott attended Indiana State Teachers College at Terre Haute, Indiana and Teachers College of Indianapolis. She has had several years experience with a firm of certified public accountants. She is a director of the Los Angeles Chapter as well as bulletin editor. We welcome her to the editorial staff.

GUEST EDITOR

We are happy to present to the readers of *The Woman C.P.A.* a guest editor for our Tax News Department—Miriam I. R. Eolis of New York City. Miss Eolis, a well known Tax Consultant, is a certified public accountant and an attorney. We welcome her to our pages and hope that further contributions will be received from her.

SPRING CONFERENCE

A spring conference will be held in Muskegon, Michigan, on May 25, 26 and 27. Interesting plans are being formulated by the Muskegon Chapter. Let's all plan to attend and make it an outstanding success. The next issue of *The Woman C.P.A.* will contain more definite plans.

PERSONAL

Marjorie Guthat C.P.A. of Chicago had the distinction of being the only woman to speak before the Chicago Association of Credit Men during a course on Credit and Collections. Her subject was "Ratio Analysis of Financial Statements."

Ruby K. Roach of the District of Columbia Chapter has been admitted to practice

before the Supreme Court of the United States.

Rose M. Dunjill of the Long Beach Chapter attended the International Planning Conference of Pilot International in Macon, Georgia, in January.

Catherine Quire of the San Francisco Chapter has been initiated into the University of California Accounting Society, Beta Alpha Psi. The national organization has recently changed its constitution, which previously did not recognize women members. The University Chapter has honored Mrs. Quire with a faculty honorary membership.

MATHEMATICS

Child, behold the lovely pattern
Mars and Venus draw with Saturn.
Pause upon a hill and see
Celestial geometry.

Bend and carefully observe
The petal's precise fabric curve.
This is mathematics true
Beyond the kind that men construe.

Any vine you gaze upon
Plots a perfect pentagon.
Every ray the sun expels
Fashions faultless parallels.

Where the comet wanes and comes
Are essential axioms.
Gaze upon the sky and ponder—
Primal algebra is yonder.

LIONEL WIGGAM
From *Poetry*

* * *

Robert Burns, Scottish poet who is credited with writing *Auld Lang Syne*, was employed as an excise-officer, starting at a salary of 50 pounds per annum in 1789 and progressing to 70 pounds in 1791. It has been remarked that he discharged these duties vigorously though not with excessive sternness.

TAX NEWS

TENNIE C. LEONARD, C.P.A., Memphis, Tennessee

and

GUEST EDITOR—MIRIAM I. R. EOLIS, New York, N. Y.

At the present sitting, the decision of whether the avails of prize winnings in contests constitute taxable income or not is merely a matter of what forum one seeks. If the Treasury Department is questioned, the answer is "taxable." If one goes to the courts, the answer is "probably not taxable." So far, the Treasury Department has not been eager to go to the Supreme Court for an answer; and no taxpayer has had to. Therefore, equivocation and confusion!

As far back as 1923 the Treasury Department has been issuing rulings holding contest winnings taxable. In I.T. 1651, it was ruled that where a newspaper contestant won a sum of money, the winnings were income paid to her for her compliance with conditions set by the newspaper. Services were thus spelled out.

Shortly thereafter in I.T. 1667, another ruling was handed down holding winnings taxable under the following set of facts. Taxpayer was a patron in a restaurant, which was offering an automobile as part of an advertising scheme. Every patron was given a ticket, with each meal purchased, bearing a number. At the end of six months the holder of the number chosen by lot won an automobile. Taxpayer was the beneficiary of the award. The Commissioner informed him that as the possessor of the new car he owed taxes to the extent of the fair market value of the car.

In 1945 the case of Malcolm McDermott vs. Commissioner, 150 Fed 2nd 585, was decided in the Circuit Court on the issue of prize winnings. This was a case where the American Bar Association offered the Ross Essay Prize of \$3,000.00 to any lawyer who

wrote the best paper on a particular subject as named. The taxpayer received the award, and the Commissioner held that the amount received was taxable income. The Circuit Court reversed the holding of the Commissioner and the Tax Court, and held that the prize was in the nature of a gift, and was, therefore, not subject to income tax. It was pointed out that the prize was not given as compensation for services rendered but was offered and paid to stimulate scholarship. There was no element of services or benefit to the American Bar Association, and the payment was incidental to the honor of the prize.

Shortly after the McDermott case, the case of Pauline C. Washburn 5 T.C. 1333 once again held with taxpayer on the problem of winnings. In this case taxpayer received a telephone call one evening from the Pot O'Gold radio program informing her that she had won \$900.00 because her telephone number had been picked out of thousands of others by chance. She received, shortly thereafter, a draft for \$900.00 with accompanying notation that it was an "outright cash gift." The Tax Court held that the moneys received constituted a gift and were not subject to income tax. There was no element here of services rendered or of capital employed.

In 1949 the Bureau issued a ruling concerning the Ross Essay Prize in which it declined to acquiesce in the McDermott decision, and held that it did not agree with the conclusion reached in that case. Thus it declared that winners of the Ross Essay Prize for the year 1949 and all years thereafter would be held taxable on any moneys received in connection with the prize.

Finally in 1950 the Bureau issued the ruling I.T. 3987 to the effect that the fair market value of a prize received by any one participating in a contest will be includible in income for tax purposes. In the case resulting in this ruling, the taxpayer correctly answered a question on a radio program, and received various prizes consisting of merchandise.

Now the problem remains as to what a taxpayer's status is in these situations. Certainly we can conclude that any taxpayer who is not prepared to go to the courts had better dig into his pockets to

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pay income taxes on prize winnings, regardless of whether he may have to hack out a piece of a car, a house or a refrigerator he has won to make such payment. Where cash is received, it is simple to reduce the amount of the prize and pay taxes. However, where the questionable beneficiary may have won a house standing in the middle of Times Square, and which he has the obligation of immediately removing to some land he does not own, the problem of paying income tax on the receipt of the house, which he cannot afford to maintain, and which he is unable to sell, in addition to paying a tax out of a purse he does not have, may create some utterly ludicrous and pathetic problems. The Bureau simply and unequivocally solves the problem by saying that the recipient owes an income tax on the fair market value of the property received at the date of receipt.

The courts, on the other hand, have not been challenged sufficiently often to set any firm pattern of opinion. Certainly the two cases cited would indicate that taxpayers may expect much more favorable treatment in court than in the Bureau. However, it should be pointed out that the Pot O'Gold case has an extremely favorable set of facts for taxpayer. Frequently the element of complete lack of service and effort present here are not quite so clear. In the McDermott case, on the other hand, it should be borne in mind that the Tax Court considered the prize money taxable, and it took an appeal to the Circuit Court to get a favorable result for the taxpayer. Secondly the American Bar Association with all its tax talent was behind the case. Third, there was a dissenting opinion in the Circuit Court; and fourth, the Commissioner refused to go along with the decision in identical future cases. On the whole, there is, therefore, little optimism to be found in the decision despite its strong conclusion in taxpayer's favor.

Where the courts may go from here we can only guess. Where the Bureau is headed we know. The moral of the story is, "Look a gift horse in the mouth, and make sure he has gold teeth."

TAX COURT GETS LESSON IN OPINION WRITING

O. D. 892, 4 CB 209 (1921) has long denied school teachers a deduction for their expenses in advancing their education by attending summer schools on the grounds that such expenses are personal. Movie

actors may deduct the costs of rubbing fees and trainers who keep them in physical condition, rent for handball courts, etc. (*Hutchison*, 13 BTA 1187; *Denny*, 33 BTA 738); opera singers may deduct amounts paid for cosmetics or to voice coaches (*Hempel*, 6 TCM 743); union members may deduct the initiation fee required to be paid to a labor union in order to obtain employment (I.T. 3634); but a school teacher may not deduct expenses incurred in "sharpening the tools of her trade" as Mrs. Nora Payne Hill expressed it.

Mrs. Hill, who holds the highest certificate issued to public school teachers by the Virginia State Board of Education, had taught school for 27 years. She was required to renew her certificate in 1945, and the Virginia law required the taking of professional or academic courses for credit, or the passing of examinations on required reading. She chose to attend summer school at Columbia University and incurred expenses of \$239.50 which she deducted in computing taxable income for 1945. The Commissioner disallowed the deduction and determined a deficiency of \$57.52.

The Tax Court, 13 TC 291, upheld the Commissioner and has now been overruled by the Fourth Circuit Court of Appeals in a fairly scathing opinion handed down on May 19, 1950, which must have been intended as a lesson on how opinions should be written. Where the Tax Court quoted the late Mr. Justice Cardozo on ordinary and necessary expenses, the Circuit Court quoted that eminent jurist to support its own view; where the Tax Court cited *Deputy v. Du Pont*, 308 US 488, the Circuit Court quoted Mr. Justice Douglas' opinion in that case. For good measure the Circuit Court quoted Mr. Justice Black in *Commissioner v. Heininger*, 320 US 467 and Professor Maguire, 35 *American Association of University Professors Bulletin*, 748, 762.

Without nullifying O. D. 892, the Circuit Court said it did not control where attendance at summer school was undertaken essentially to enable a teacher to continue her career in her existing position. We are forced to point out that the Court's opinion was not as strong on the vernacular as in legal phrase making: mentioning that one of the courses Mrs. Hill took at Columbia was in short story writing, the Court said it was "right in her alley." We think

(Continued on page 15)



Herbert G. Bowles is a Certified Public Accountant and a resident partner of Lybrand, Ross Bros. & Montgomery, a national firm of certified public accountants. Mr. Bowles is first vice-president of the Los Angeles Chapter of the National Association of Cost Accountants and a state director of the California Society of CPAs.

This excellent paper was presented by Mr. Bowles at the Public Relations Meeting of the Los Angeles Chapter of ASWA. We are indeed fortunate in being able to bring his message to the attention of the readers of "The Woman C.P.A."

MINIMUM STANDARDS FOR TESTING AND SAMPLING PROCEDURES

HERBERT G. BOWLES

Historically, the use of testing and sampling techniques in the conduct of business became necessary at the same time that accounting records themselves became necessary, that is, when the volume of business transactions grew so large that the proprietor could no longer personally remember and check each one.

The sampling of agricultural and other products for indications of quality must have been practiced from the very dawn of civilization. Human nature changes slowly, if at all, and the outstretched hand of the housewife at the Brooklyn fruit stand must have had its counterpart thousands of years ago. Then, as now, the best sampling procedure was to pinch every apple in the bin. Practical considerations largely prevent taking full advantage of this best of all sampling methods.

During World War II, a statistical sampling technique was developed by the National Defense Research Committee for use in testing munitions products. This method has been applied in some degree to professional auditing problems and deserves the careful study of all accountants whose work includes the selection and application of sampling and testing techniques.

Although sampling tests have always had

the common objective of satisfying the tester and that, if pursued further, the tests would disclose conditions similar to those already found, there have been no generally recognized testing standards or minimum requirements upon which such a conclusion could be predicated with reasonable assurance. This conclusion has been in the field of professional judgment and may properly always remain there. The new techniques referred to do, however, offer a mathematically and statistically, and, therefore, scientifically sound basis for a conclusion as to the probable character of all the data in the group from which the particular sample was drawn, and this assurance is important to a professional conclusion.

If professional accountants, internal auditors, and others making sampling tests of accounting data should be required to substantiate their work and justify the conclusions which they have reached, it could be very helpful to be able to show that the testing procedure was scientifically designed and that the area of substantiation required was therefore limited to selection of methods, interpretation of results, and to other pertinent considerations. This happy position is not held today, in the

usual case, because of the unlimited variation in types of sampling techniques, and because there is no generally accepted auditing standard for minimum requirements.

It will be helpful to review, at this point, the weaknesses, or areas of vulnerability, in sampling techniques commonly utilized, which are not present in the scientifically sound sequential sampling technique which will be described shortly.

A percentage method is used frequently and is sometimes applied loosely. If a 5% test is programmed and if budgeted time runs out when only 4% of the data have been examined, the remaining items may be given a 1/10 of 1% scrutiny or none at all.

The percentage method does not function well with extremely large numbers of items because of the burdensome time requirements. One per cent of 100,000 checks is 1,000 checks and one per cent of 100,000,000 sales rung up on cash registers is 1,000,000 of such sales. The use of inflexible percentages for sampling may require so much auditing time as to be impracticable, or result in such low percentages as to constitute only token testing. The selection of a percentage sample when the percentage method is used is influenced by individual bias and preference. One out of every twenty is 5% but it may be every twentieth item or it may be one-twentieth of the total in a group off the top, off the bottom, or from the middle in the body of detail. There is a tendency for samplers to develop habits, such as selecting April and August for test months, or checking every tenth page footing. These habits become known as time passes and some risk is bound to be incurred that personnel responsible for the paper work will take liberties with those records reasonably safe from selection by examiners.

Some auditors co-operatively leave their special colored pencil tick marks in the records year after year, to provide interested clerks with a reliable program of what will probably be examined in the next audit. In addition to these and other weaknesses in conventional sampling procedures, they usually fail in an important mathematical and statistical criterion. Each one of the entire body of data should have an equal chance of being selected in the sample. If every tenth item is drawn, the other nine have no chance whatever of being examined.

Not only should every item have an equal chance of being drawn in the sample, but it must be "replaced" after drawing, and be available, therefore, to be drawn again.

If drawn again, and this is not unlikely, the results of the sampling should list the item twice, with the same effect as if it had been two different items.

In the case of a calendar year corporation for which proofs of cash are prepared for two selected months as a test, how often is the month of February selected? Almost never, because the auditors usually are still working on the December 31 balance sheet during February and feel that February is too early in the year to be a typical month, or has too few days, or is likely to be freer from good test characteristics for other reasons.

Factors which may influence both the manner and extent of sampling when no minimum standard is utilized include the available fee, illness, temperamental attitude or caprice on the part of the individual making the tests and local conditions for conducting the tests. All of these factors can be eliminated if scientific sampling is applied, and the area for application of professional judgment can then be restricted to consideration of other pertinent matters.

Scientific sampling involves the selection of a number of specimens at random. The tabulated number of errors found, in relationship to the number of items in the sample, is then analyzed to determine which of three courses of action should be taken, as follows:

1. Conclude that the data from which the sample was drawn are acceptable.
2. Conclude that the data from which the sample was drawn are unacceptable.
3. Make further sampling tests of the data in order to reach an assured conclusion.

Minimum numbers required for a particular sample are computed by use of a formula. The minimum number is an absolute number and is not affected by the total number of items to be tested. If then, we are to test 100 cleared bank checks, or 1,000, or 100,000, or 100,000,000 the minimum number required to be drawn as a sample is the same. One suggested formula which may become widely used produces the number 77 as the minimum. The sample number is determined by use of a mathematical equation containing four elements, as follows:

1. The percentage of errors which is considered acceptable, that is, the maximum number of errors which may be indicated to be present without requiring a conclusion that the

data are unreliable. As an example, .001 (or less) or 1/10 of 1%, or an average of one error in every 1,000 items.

2. The percentage of errors which, if indicated to be present, justifies a conclusion that the data are unreliable, are not substantially correct, and are unacceptable, from an audit viewpoint. Unless the data are rechecked in detail and corrected throughout, this finding may require a qualification in a report or a disclaimer of any opinion. As an example, .03 (or more) or 3% or an average of 3 errors in every 100 items.
3. The mathematical probability that, on the average, there will, by chance, be samples drawn which are not representative and will indicate a satisfactory body of data when, in fact, the data are not satisfactory. For example, .10 or 10% or once in ten times.
4. The mathematical probability that, on the average, there will, by chance, be samples drawn which are not representative and will indicate an unsatisfactory body of data when, in fact, the entire group are within acceptable limits of error. For example, .05, or 5%, or once in twenty times.

The examples cited, that is, the setting of an acceptable incidence of error at 1/10 of 1%, an unacceptable incidence of error at 3%, and utilizing probability factors for erroneously reaching a favorable conclusion once in ten times and for erroneously reaching an unfavorable conclusion once in twenty times, produce the absolute number 77 as the minimum sample required to be drawn and examined.

One of my colleagues, in discussing the use of an absolute number, such as 77, commented upon the great disparity between such a relatively small number and the number which might be required to be examined in a 1% test, or 1,000,000 cash sales out of a total of 100,000,000. "Do you mean to tell me," he said, "that equal reliance can be placed on a test of 77 out of 100,000,000 as on a test of 1,000,000 out of 100,000,000?" I asked him if he had ever gone to the beach and tested the water with his toe before going in, and what percentage of the Pacific Ocean he thought that he had sampled.

The question is not what portion, or share or percentage of the whole should be

examined but how few items need to be examined to reach a conclusion as to the probable character of the others, regardless of their number. In the illustration cited, assuming that no errors were disclosed through examination of the 77 items, the conclusion can be supported that the entire 100,000,000 items are probably substantially correct. If the 1% test had been consistently applied by examining every tenth item, and if this method had become known to persons responsible for producing the data, the examination of 1,000,000 would not warrant as much assurance as to the probable character of the other 99,000,000 as would the scientific test of 77.

It is of course true, that, other things being equal, the larger the sample, the more assured the result in any testing program.

It should be pointed out that scientific sampling deals with numbers of errors indicated, but not with the amounts of such errors. An inventory extension transposition error of \$990 would be one error; also an inventory extension error of \$.01; or of \$100,000. For this reason, data to be sequentially sampled should first be arranged in dollar amount groupings, in so far as this is feasible, and separate tests then applied to each group. In this connection, examiners will continue to be interested in the character of and reason for errors disclosed by any sampling technique and to recognize those resulting from wilful manipulation or other fraudulent practice.

The question is frequently asked: How are formula factors selected and how great is the variation in the resulting absolute number for the minimum sample?

Let us suppose that an internal auditor is testing performance of personnel responsible for the receiving function and is sampling receiving report forms for completeness. Assume that a receiving slip is not dated. If other prenumbered forms before and after the undated one are complete and the approximate date of the incomplete one can be determined, it would not appear to be too serious an omission. For this test the internal auditor might select a factor as high as 5% or 6% of errors as an acceptable showing, and set his unacceptable error factor at 15% or 20%.

But consider an examination of signatures to corporate bank checks to test proper authorization by the board of directors. Normally, no errors would be expected, and the factors might be 1/1000 of 1%, and 1%, respectively, for acceptance and rejection.

Percentage acceptance and rejection factors must be selected for each sampling operation. Probability factors may also be modified to better fit the needs of individual situations. In the selection of the four formula factors, professional judgment must be employed, and in interpretation of the results of sampling tests, professional judgment must again be exercised.

To illustrate the range in absolute numbers for samples, a selected group of combinations has been tabulated utilizing the probability factors already mentioned for erroneously accepting or rejecting the data on the basis of the results of a particular sample, that is, 1 in 10 and 1 in 20, respectively, as follows:

	Range	
	From	To
Acceptable error percentages	.001	.03
Unacceptable error percentages	.02	.10
Minimum sample size	27	222
Average sample size if of acceptable error character	37	1420
Average sample size if of unacceptable error character	13	1524

As may be inferred from its name the sequential sampling technique contemplates the drawing off of a sample, the tabulation of the results, and the determination at that point of whether an additional sample should be taken or whether a reasonable conclusion can then be reached as to the probable character of the entire body of data.

The application of the method in practice utilizes a chart or a table for ready reference. The chart is a simple right angle, the horizontal arm being graduated for number of items sampled, and the vertical arm being graduated for number of errors disclosed. As the sampling proceeds, the varying numbers of errors developed with increasing numbers of items sampled can be plotted as points within the right angle and a line drawn connecting the points.

The position of these points and their connecting lines in relationship to two fixed diagonal lines from the lower left to the upper right determines whether the test is sufficient or whether additional tests need to be made. If the plotted points fall below the lower of the two fixed diagonal lines no further tests are required and the data may be accepted; if above the upper of the two fixed diagonal lines, the conclusion can be supported that the data are unacceptable; if between the two fixed diagonal lines, no conclusion is possible and the drawing of additional samples is indicated.

The two fixed diagonal lines are determined by the formula used, that is, by the selected criteria as to maximum acceptable percentage of errors, minimum unacceptable percentage of errors, and probability factors for erroneous conclusions from the particular sample or samples drawn. By varying the elements of the formula a number of different sets of two fixed diagonals each may be constructed and the plotted results of the sampling may be interpreted in the light of different assumptions as to composition of the data.

To those disinclined to use pictorial displays in graphic charts a table may be constructed which will indicate at what point in the sampling procedure a conclusion is possible.

Illustrative graphs and tables, together with an explanation of the scientific sequential sampling technique are available in a book recently published by the University of California Press, Berkeley, California, and written by Lawrence L. Vance, Associate Professor at the University of California at Berkeley, entitled *SCIENTIFIC METHOD FOR AUDITING*. This book contains much of the material presented in this paper and has been freely drawn upon for basic principles.

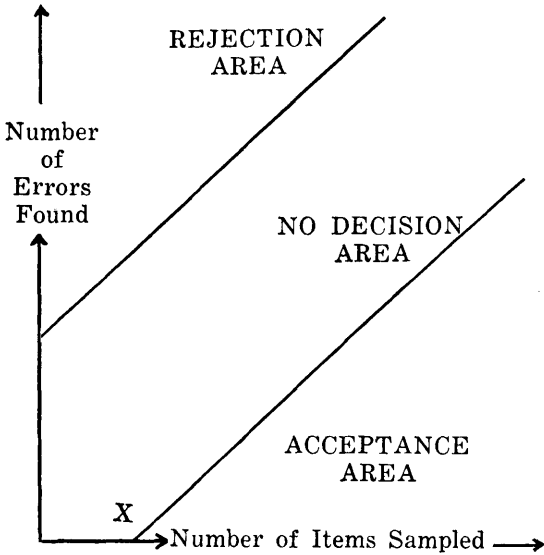
The mathematics of the technique is too involved for discussion at this meeting; and interested persons are referred to the book by Vance or to other publications listed in the excellent bibliography in that book. A word may be said about random numbers and their selection for use in pulling items to be sampled. Because of conscious or unconscious personal bias and preference for certain numbers, it is considered more reliable to utilize mathematically tested random number sequences which may be obtained from published tables. There is no objection, of course, to any method of selection of items to be sampled if the basic principle is observed; that is, if every item has an equal chance to be drawn in the sample each time that an item is drawn. The term "subjective randomization" has been used to describe the technique whereby samples are selected by what the sampler believes to be a truly random technique but without use of mechanical shuffling or sorting devices or reference to published tables of random numbers.

Sequential sampling techniques have had only limited application in professional auditing practice. The formulas described in this paper were developed during World War II and their full adaptability to the

needs of the profession will be demonstrated only through general acceptance by professional accountants in the years to come. Such general acceptance may not be expected to occur rapidly. The primary purpose of this paper is to invite the attention of the profession to the techniques; to the possibilities of adapting them generally in professional auditing practice; to the

possible desirability of establishing minimum auditing standards for sampling tests; and to emphasize the dynamic, ever-changing, ever-questioning attitude which the profession must foster and nourish if it is to continue to provide acknowledged leadership in those phases of economic development in which accountancy plays such a vital role.

GUIDE CHART
for
PLOTTING RESULTS OF
SEQUENTIAL SAMPLING TESTS



X=Point determining minimum number required to be sampled to justify acceptance.

Adapted from the book,
Scientific Method for Auditing, by Vance.

GUIDE TABLE
for
REFERRING RESULTS OF
SEQUENTIAL SAMPLING TESTS

Risk Factors For:
Erroneously accepting undesirable data .10
Erroneously rejecting desirable data .05

Quality Factors:
Acceptable Error Percentage .005
Unacceptable Error Percentage .03

Number of Items Sampled	Number of Errors Found Which Will		
	Permit Acceptance	Not Permit Decision	Require Rejection
2		1	2
29		1	2
89	0	1, 2	3
100	0	1, 2	3
160	1	2, 3	4
171	1	2, 3	4
239	2	3, 4	5
243	2	3, 4	5
303	3	4, 5	6
314	3	4, 5	6
374	4	5, 6	7
385	4	5, 6	7

Risk Factors For:
Erroneously accepting undesirable data .10
Erroneously rejecting desirable data .05

Quality Factors:
Acceptable Error Percentage .005
Unacceptable Error Percentage .05

Number of Items Sampled	Number of Errors Found Which Will		
	Permit Acceptance	Not Permit Decision	Require Rejection
2		1	2
39		1	2
49	0	1, 2	3
89	0	1, 2	3
100	1	2, 3	4
140	1	2, 3	4
151	2	3, 4	5
191	2	3, 4	5
201	3	4, 5	6
241	3	4, 5	6
252	4	5, 6	7
292	4	5, 6	7
303	5	6, 7	8
343	5	6, 7	8

Adapted from the book,
"Scientific Method of Auditing," by Vance.

COAST-TO-COAST

HAZEL BROOKS SCOTT, Los Angeles, California

ATLANTA

The speaker for the December meeting was General A. R. Glancy, who talked about "Accountants' Role in Management." General Glancy has served as President of Pontiac Motor Company, as Vice-president of General Motors Company, and, during the last war, as Deputy Chief of Ordnance. The story of his "experiment in humanity"—the creation of a hospital in a town where there was no hospital, and a factory to assure its continuation and growth—has been told in *The Saturday Evening Post* and dramatized on *Cavalcade of America*. During an interesting study course, five attorneys have given lectures on "Law in Business."

CHICAGO

Christmas was celebrated with a party to which members brought gifts for old-age pensioners who participate in the University of Chicago settlement program. "Not Equality, but Cooperation" was the topic presented in January by Miss Ann Brewington, Associate Professor of Business Education at the University of Chicago School of Business. A study group, with Helen McGillicuddy as moderator, has covered the 1950 changes in the Federal Income Tax Law.

CLEVELAND

In December the chapter heard Mrs. Dorothy L. Englehart, Chairman of the Women's Volunteer Committee of Cleveland Chronic Hospital and Infirmary, tell of a typical Christmas at the hospital. Members brought gifts for Mrs. Englehart's committee to distribute to hospital patients.

In January Mr. Harry Frey, Director of the Cleveland Chapter of NACA, gave an interesting talk on the use of graphs in the interpretation of figures. A number of members attended a meeting sponsored jointly by Cleveland chapters of Ohio Society of Certified Public Accountants and Robert Morris Associates. Mr. Samuel J. Broad, past president of American Institute of Accountants, spoke on "Current Accounting Problems." The Education Committee has presented a series of lectures on "Accounting."

DES MOINES

A White Elephant Christmas party was held, and the money obtained was used to buy a sewing machine head for the Walker Memorial. At the January meeting Helen Irwin, State Legislation Chairman of Iowa Federation of Business and Professional Women, discussed "Legislation."

DETROIT

The chapter is proud of its public relations meeting held in November. About one hundred members and guests listened to a thought-provoking speech by William A. Paton, Ph.D., CPA, Professor of Accounting at the University of Michigan and editor of *Accountants' Handbook*. Grace Dimmer, national president of ASWA, gave a short talk explaining the purpose and aims of ASWA to the guests.

In December two members, Rosemary Hoban and Loreice Lufty, described the highlights of their recent six weeks' vacation in Europe and showed pictures taken on the trip.

Mr. John Raymond, attorney and outstanding tax consultant, spoke on "Federal Tax Returns" at the January meeting and answered questions in the discussion period which followed.

DISTRICT OF COLUMBIA

Members heard Ellsworth C. Alvord, attorney and prominent speaker, talk about "Federal Taxes" at the December meeting. In January Mr. Walter Frese, Chief of Accounting Systems Division, General Accounting Office, explained the joint program of the Treasury Department, the Bureau of the Budget, and the General Accounting Office for improving accounting in the Federal Government.

GRAND RAPIDS

"An American Business Girl Looks at Europe" was a report given in December by Miss Hazel Meyers, who is a supervisor at Michigan Bell Telephone Company and Vice-chairman of the East Central Region of the Business and Professional Women's Association. At the January meeting Mr. George A. Payne, CPA, gave a resume of the 1950-51 income tax laws. Mr. Payne has his own office and is a member of the American Institute of Accountants.

HOLLAND

At the December meeting Mr. Bruce Van Leuwen of the Ottawa County Abstract and Title Company illustrated his talk on "Land Titles" by means of a map of the State of Michigan showing the meridian and base, the intersection of which is the starting point by which all land is located. He also used charts showing in detail the various sections of the county and township. In January Mr. Cornelius Van Liere, Manager of Merchants Service Bureau, discussed "Credits and Collections."

INDIANAPOLIS

The December meeting was a Christmas party, complete with a Santa Claus and Christmas carols sung by a triple trio from the Indiana Girls School. The superintendent of the school, Mrs. Mary Margaret Sumner, told of the progress and aims of the school. Mrs. Sumner received her master's degree in social work from Indiana University. The Christmas project was to furnish one or more wheel chairs for Cross Roads Rehabilitation Center.

In January the chapter heard Mr. Lester N. Ponder, Assistant Counsel in Charge, Office of Chief Counsel, Bureau of Internal Revenue, explain practice and procedure before the Tax Court of the United States.

LONG BEACH

A most delightful Christmas party was enjoyed at the home of the president, Hazel Scott Coomes. Her husband's eggnogs were reported to be something really special. At the January meeting Mr. E. L. Funder, Chief Auditor of the Department of Employment for the Harbor District, told of the workings of his office.

LOS ANGELES

At a joint meeting with the California Council of Public Accountants in December, an unusually clear resume of the tax changes was given by Mr. Ralph A. McClure, tax consultant. His talk was followed up in January by a forum on 1950-51 taxes conducted by chapter members.

LOUISVILLE

The second annual Christmas party was a strictly social gathering with Christmas decorations, favors, carols, and presents distributed by Santa Claus. At the January meeting Mr. L. C. J. Yeager, CPA explained "The Kentucky CPA Act and Its Administration."

MUSKEGON

Mr. Henry Mallett, partner in the auditing firm of Lawrence, Scudder & Co., had much to say about "Inventory Methods and Controls" at the December meeting. In January Mr. Robert Kennedy, tax consultant who was formerly with the Treasury Department, explained the "1950 Revenue Act."

NEW YORK

The regular technical meeting at which Carolyn J. Abernethy, chapter member, discussed "Trade Magazine Circulation" was followed by a Christmas party. Another chapter member, Charlotte Lawrence, who is a hotel auditor with Harris, Kerr, Forster & Co., talked on "Hotel Accounting" at the January meeting.

PHILADELPHIA

Something memorable has been added to chapter history—the first annual Christmas party with superlative interpretation. At this meeting Mr. William J. Probst, Manager of Sales Promotion and Advertising of Penn Mutual Life Insurance Company, gave a comprehensive survey of "Pension Designing and Funding." Mr. Probst said in conclusion, "It has not been the intention in this discussion to prove that any given design of method of funding is preferable. Each has its advantages and disadvantages. The important thing is to weigh each one carefully and use that which best fits the circumstances. It is only by being fully informed of all the possible ways of doing the job that we can intelligently plan."

At the January meeting "Simplification of Books and Records by Correct Paper Procedure" was discussed by Mr. George C. Grogan of Grogan Graphix Company.

RICHMOND

The November meeting was an interesting one when Lucille Taylor, CPA, Nellie A. McClellan, and Genevieve Moore each told about her job, its problems, and ways of meeting them. In December Honorable J. Vaughan Gary, Virginia Congressman, gave some very enlightening information to the group about "How the Marshall Plan Affects Us."

Nina Horton Avery, an associate member of the chapter, discussed "Legislation of Special Interest to Women" at the January meeting. Mrs. Avery has worked in this field at state, national, and international levels. She worked especially to ob-

tain jury service for the women of Virginia while serving as State Legislation Chairman of Virginia Federation of Business and Professional Women.

SAN DIEGO

In December it was a Christmas party for the San Diego Chapter also. Mr. Orin K. Cope, budget officer for the City of San Diego, presented many interesting facts about the city budget when he outlined "The Accountant's Contribution to Good Government" at the January meeting.

SAN FRANCISCO

'Twas two weeks before Christmas, when all through the house, not a creature was stirring—except the San Francisco Chapter members, who were holding their annual Christmas party. In January Mr. Robert Whiteside, Vocational Guidance Director, spoke on the subject of "How We Vary As Individuals." Mr. Whiteside is the author of *You, the Most Important Person in the World*.

SEATTLE

The chapter was fortunate to have the "1950 Revenue Act" explained at the De-

ember meeting by an expert in the tax field, Mr. Durwood L. Alkire, CPA.

TERRE HAUTE

In December it was a Christmas party for the chapter. At the January meeting the superintendent of the Indiana State Farm at Plainfield, Mr. Albert Ellis, told about accounting at that institution.

TOLEDO

Myrtle Geckler, a chapter member, gave an instructive talk on "Preparing for the CPA Examination" at the December meeting. A skit written and directed by Rachael Cooper, "The Little Man Who Cleans the Office," was presented. Members wrapped Christmas packages for an "adopted" ward of women at the Lucas County Home for the Aged.

What goes on "Behind the Scenes of Dunn and Bradstreet" was learned in January from Mr. W. H. Reichenback of Dunn and Bradstreet, Inc. Volunteers will audit the receipts of the Florence Crittenton Home Building Fund Drive during January and February.

IDEA EXCHANGE

PHYLLIS M. HAAN, Grand Rapids

How long has it been since you looked around?

Have you ever passed a shopping center or a popular point and realized only after some particularly radical change was being made that you didn't know what had previously occupied the space?

Creatures of habit, most of us miss much and only because it doesn't directly effect us. Yet there are things that *do* directly effect us and our means of earning a living that we sometimes overlook completely. For instance, have you looked at the reception room of your company? Since when have the magazines been changed—do you even have any reading material available for waiting prospects or visitors? Could this room be brightened up a little by maybe only a colored chair or a mopping of the floor, or maybe a light color applied to the walls? How about your receptionist—does she give your visitors a feeling of well-being by greeting them pleasantly and periodically inform them

if for any reason the man to be seen will be delayed—gives the visitor a feeling of importance and a feeling that your company is interested in saving his time too.

When the visitor is finally admitted—what does he see in your office? A broken venetian blind at the window that you have been meaning for months to replace—dirty drapes at the windows that you really never took the time to notice—how long has it been since you even had the windows washed?

And the floor. Yes, you know at one time it was really beautiful, but who would know it now? The cleaning woman has touched the surface, and you never have taken the time, in fact it never entered your mind that an outside cleaning establishment, who do nothing but clean floors and windows, and very inexpensively, might make a drastic change in their appearance as well as preservation.

As long as we are speaking of dirt and destruction—what about the furniture?

What a beautiful finish that desk would have if someone only took a minute or even thought to clean its surface. Of course the stenographer's chair has only been used 20 years—never occurred to anyone that the fact the caster comes out every time she bends over, that it might be time for replacement or at least relieve her of it long enough to be repaired—it might cause a serious accident on her part, it might be even effecting the efficiency of her work as well as take precious time to replace the defective part. Who knows maybe a new chair would even eliminate the tremendous three o'clock fatigue she has been complaining about?

As long as we are asking questions—what about that old rattle trap of an adding machine you are using—an eye sore, noisy, and as far as use is concerned, certainly expensive. Ever thought of testing something new is going to do the job faster, easier, less expensively, but who was talking about having so much to do, working so hard and having so little time—you, wasn't it?

If you are operating the same type of business as the fellow next door and he seems to be the only successful one, has it ever occurred to you to take time off and just try to figure out why—maybe it is only the way he accomplishes his results—maybe he has his office work down to a minimum of operations, combining jobs and getting all his records posted at once, instead of doing them individually. Maybe the appearance of his office and building just look successful—maybe it is the way he handles his public. Some of our public are inclined to judge a product by the looks of the business establishment, the same as they would judge a man by the looks of the house and surroundings he lives in.

And while we are talking about man and his appearance—what about yours? Since when have you changed your personal color scheme? Are you known as the 'girl in brown' because you never wear any other color, and only because maybe 15 years ago some one told you it did the most for you. It's surprising what a bright colored outfit, or even a different color than we are used to wearing, can do for one's morale when things seem just a little worse than usual, or you are not your happy healthy self—even brings compliments from our associates, creating an inflation of ego and a sense of well-being—

turns a dark day into a happy productive day. How many disgruntled dissatisfied employees have you seen produce the required amount of work?

Sometimes even a new hair-do will do the trick. Naturally it is cheaper to fix it yourself, but maybe an inexpensive trip to a hair stylist might eliminate that 'old hag' appearance you have been complaining about, plus the fact it might even detract from the fact that you 'have taken on a little weight'.

Maybe you claim you cannot sell anything, but indirectly you are your own salesman—your progress is the result of how well you operate and keep your establishment, in addition to how well you sell yourself.

Stop—Look—and Listen! It pays dividends.

* * *

Success never gives us a good opinion of ourselves; it only confirms it.

—*Petit-Senn: Conceits and Caprices.*

Only 80 and 7 years ago, November 19, 1863, Abraham Lincoln made his famous Gettysburg address; to preserve a nation as a government of the people, for the people and by the people; to preserve a union, one and inseparable established upon the principles of freedom, equality, justice and humanity. Many an American has sacrificed his life that these principles may live forever. World Wars I and II were fought and today another fight is being prepared against an enemy more portentous and more evil. The book, "The Effects of Atomic Weapons," is first on the list of readers, although the volunteer's lists of American Women's Volunteers Society and Red Cross have dropped to a number that would be disastrous in any planned civil defense. No planned civil defense can operate by a few. All of us must take part—we are again in the majority—driving ambulances—helping in the hospitals—or giving a few hours in any of the many civil services. The need is so vital in this fight and now is the time to do something.

Submitted by

LUCILLE CRESPEGNE,
Chicago Chapter.

TAX NEWS

(Continued from page 5)

one of Mrs. Hill's pupils could have told the Court the correct expression is, "right down her alley."

LUCKY AT CARDS—UNLUCKY AT TAXES

Colonel Joseph Carmack dealt the Collector an income tax return reporting no income other than \$4,100.00 army pay. The Collector checked the bet to an Internal Revenue Agent who persuaded the Colonel

to raise his ante by \$6,500 "estimated poker winnings above losses." However, the agent raised him and produced a net worth statement which showed his unreported income must have been \$41,244.58. The Colonel called the agent's hand and went to the Tax Court which ruled that the Colonel's income had been understated by \$33,320.53. Carmack called for a new deal in the Fifth Circuit Court of Appeals, but the Fifth Circuit stood pat, sustained the Tax Court on the determination of income as well as the 5% negligence penalty. Joseph and Bula R. Carmack, 183 Fed (2d) 1.

WHAT'S NEW IN READING

RUTH C. FORD, CPA, Columbus, Ohio

YOUR CREATIVE POWER by Alex Osborn. (Charles Scribner's Sons, New York, 1949. 355 pages. \$3.00.)

Have you tried to use your imagination lately? This book is a wealth of facts on those who have used creative thinking to find happiness and success. It contains myriad suggestions for those who need some prodding. Timidity seems to keep many of us from putting our creative efforts into play, but the advice comes from a private secretary in a big company who overcame that trait to become one of the top three in his corporation, "Even though I did think up ideas, I was afraid to suggest them to anybody. Then one day I made up my mind that the worst that could happen would be that somebody might laugh at me. After a few of my suggestions had been adopted, I became bold." He found that the more ideas we give out, the more competent we become.

Where there is a willingness to work, creative thinking can be applied to everyday jobs of men and women with assurance of satisfaction and often monetary gain. This book does not think for you, but it stimulates the mind along constructive lines which are bound to benefit the reader in any profession.

The writer is known to many in his connection with the advertising firm of Batten, Barton, Durstine and Osborn; to others, Alex Osborn financier, educator or author.

*Reviewed by Theia A. Cascio,
Los Angeles Chapter.*

The Journal of Accountancy, June, 1950—**AUDITING STANDARDS SHOULD REQUIRE MORE COMPETENT EVIDENCE IN AUDIT OF FIXED ASSETS.** By Benjamin Newman, C.P.A., Assistant Professor, Business Administration, Adelphi College, New York.

This article asks the question: Does the "generally accepted auditing standards" to which the auditor adheres, include the same auditing procedures for fixed or property assets that it does for current assets and liabilities? These principles require that "sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination."¹ After commenting on how few articles have ever been written on the subject, the author points out the possibility for misstatement of the net worth of the Corporation through fixed asset accounts and offers suggestions as to an audit program with respect to fixed assets which would include inspection. He issues a challenge to the profession to prove that the accepted auditing standards should not be applied to this class of assets.

¹ Committee on Auditing Procedures. Tentative Statement of Auditing Standards, 1947, p. 11.

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Flatterers are clever mind readers. They tell us exactly what we think.

ALBERT A. BRANDT.

THE WOMAN C. P. A.

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