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Catching the significance

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Catching the Significance

SUPPOSE that while an accountant is doing preliminary work on an engagement, he were to compare the receipts as entered in the cash book for the last five days of, say, the month of October, with the deposits in bank for the corresponding days, and he finds that on one or more of the days the deposits were in excess of the receipts as shown by the cash book, what should he conclude?

The fact has a very definite significance, or no significance, depending upon the technical knowledge and aliveness of the individual who develops the fact.

Is it not natural to conclude that the cause of the difference between cash book entries and amounts deposited was some interruption of the regular office routine whereby certain checks received were not deposited until the day after they were entered in the cash book, and to attach no importance to the difference?

From the point of view of auditing the answer most emphatically is, "No!"

It is unnatural for an auditor to be stupid. He is stupid when he is lulled into an unnatural condition by self-developed explanations, or plausible excuses offered by employes.

The significance of deposits which exceed cash book entries toward the end of a month is "kiting." If comparisons of daily deposits with cash book entries are made, working back from the end of the period and going back far enough, the chances are that a day, or days, will be discovered when the amounts entered in the cash book will be in excess of those deposited in bank. This would signify the possibility of an open shortage which had been "kited" over the ends of months, by borrowing from receipts not entered in the cash book until after the beginnings of months following.

"Significant, but not conclusive," one says. "How can the accountant be sure

that he isn't grossly misjudging old and honorable employes of the client?"

The answer is simple. An immediate and simultaneous verification of the balance of cash in hand and on deposit, with close scrutiny of deposits for a short period prior to the time of verifying the balance will expose a shortage if it exists. If all receipts up to the time of beginning the verification are entered in the cash book and deposited in bank, assuming that a shortage exists, the amount of the open shortage will be the difference between the balance shown by the cash book and the aggregate of cash in hand and on deposit.

The suggestion that the embezzling employe may have expected the verification and have obtained sufficient funds to deposit and make good the shortage fails to convince on two points. If the shortage is small and he is able to procure and deposit the necessary amount, the "stray" deposit, or an excessive deposit, will be apparent and will equal amounts not deposited at some previous date. If the shortage has grown to substantial proportions, the embezzler will find difficulty in procuring the necessary sum on short notice.

Usually when confronted by the client with a charge of embezzlement, even though the evidence may not yet be complete or sufficient at the time for court proceedings, the embezzler confesses.

All the research, study, and procedure in the world is fruitless if one fails to catch the significance of situations developed. In the present matter, the fact of a difference between cash book receipts and deposits would have led nowhere if it had not been properly interpreted. This article is prompted by and based on a case where intelligent interpretation of a difference of the character mentioned led to the exposure of an embezzler. Baltimore office will, please, respond to the applause.