THE CPA

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The Small Business Investment Act of 1958

A BRIEF REVIEW

By CORINNE CHILDS, C.P.A.
Attorney at Law
Tulsa, Oklahoma

The Small Business Administration (hereinafter referred to as SBA) was created in 1953 and is the first peacetime government agency created for the sole purpose of advising and assisting small business enterprises. Five years later, July 18, 1958, SBA was established as a permanent agency of the Government; and on August 21, 1958, the Small Business Investment Act was approved and thereby a Small Business Investment Division was established within the Small Business Administration.

The purpose of the Small Business Investment Act of 1958 is stated in the Act as follows:

"It is declared to be the policy of the Congress and the purpose of this Act to improve and stimulate the national economy in general and the small business segment thereof in particular by establishing a program to stimulate and supplement the flow of private equity capital and long-term loan funds which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply; provided, however, that this policy shall be carried out in such manner as to insure the maximum participation of private financing sources."

Section 102.

Reference to the Regulations promulgated pursuant to the Small Business Act of 1958, as amended, is necessary for definitions of those "small business concerns" likely to be benefited or to be eligible for assistance from small business investment companies. Section 103.4 provides that for the purpose of financial and other assistance (except Government procurement assistance) a small business concern is one, including its affiliates, which is not dominant in its field of operation and which also qualifies under the following criteria:

1. Manufacturing concerns:
A. Less than 250 employees—small
B. More than 1,000 employees—large
C. More than 250 employees but less than 1,000 employees—either large or small depending on its industry and various employment size standards within the industry.

2. Wholesale concerns:
A. Annual dollar sales volume of $5 million or less—small
B. If engaged in manufacturing as well as wholesaling activities, it must qualify under both standards.

3. Retail concerns:
A. Annual sales of $1 million or less—small
B. Primarily engaged in making retail sales of general merchandise, or new and used motor vehicles, or groceries with fresh meats, and with annual sales of $2 million or less—small.

4. Service trades concerns:
A. Annual receipts of $1 million or less—small
B. Hotel or power laundry with annual receipts of $2 million or less—small.

5. Construction concerns:
A. Average annual receipts of $5 million or less during the preceding three years—small.

6. Local and long distance trucking and warehousing:
A. Annual receipts of $2 million or less—small.

7. Taxicabs:
A. Annual receipts of $1 million or less—small.

Thus, it will be seen that business concerns meeting the above qualifications may be able to avail themselves of the financing facilities provided for by the Small Business Investment Act.

Heretofore small business concerns have found it extremely difficult to obtain financing on other than a short-term basis. Now, privately-owned and operated small business investment companies and State and local development companies are authorized to make long-term loans to and purchase convertible debentures from such small business concerns.

The Small Business Investment Division of the SBA will have no direct contact with concerns whose funds are provided by the private investment companies; it has responsibility and authority to:

1. License, regulate and examine small business investment companies (this will include, until June 30, 1961, authority to grant
charters in those States not now permitting chartering of investment companies under State Law);

2. Lend funds to small business investment companies;

3. Lend funds to State and local development corporations. Licenses will be issued by the SBA based upon its determination of the applicant's ability to carry out the purposes of the Act, with priority consideration being given to those applicants proposing to utilize or obtain private financing for initial capital and surplus and not contemplating SBA assistance. Funds available for lending by the SBA will come from a revolving fund appropriated by Congress.

Forming the Small Business Investment Company

Small business investment corporations must, when State law permits, be chartered under State laws and to qualify for an SBA license, must have, in cash, a paid-in capital and surplus of $300,000. Of this amount, SBA is authorized to provide a maximum of $150,000, through the purchase of subordinated debentures, which shall be subordinate to any other obligations issued by a company, but which shall be considered as a part of the paid-in capital and surplus for the purposes of the minimum capital required for formation of an investment company. Section 302 (a).

Subject to State law, stock may be purchased by individuals, partnerships, corporations, insurance companies and financial institutions, including Federal Reserve member banks and nonmember insured banks. In the case of such banks, no Federal Reserve bank or non-member bank may hold shares in investment companies in an amount aggregating more than 1% of its capital and surplus. Section 302 (b).

After the incorporation and initial stock issue of a small business investment company, all subsequent stock issues must be for cash.

Operating the Small Business Investment Company

In addition to the subordinated debentures provided for upon initial formation of small business investment companies, the SBA will make operating loans to licensees in amounts up to 50% of their paid-in capital and surplus. Section 303 (b).

The rate of interest on subordinated debentures and other loans of small business investment companies purchased or made by SBA will be 5% per annum, but this rate may be adjusted from time to time without affecting the rates on previously-purchased debentures or existing loans. The maximum maturity on subordinated debentures purchased by SBA will be 20 years, and the agency has discretion to defer requirements for any payments during the first half of the loan. The agency also has authority to establish the interest rate and repayment terms on subsequent loans to licensees.

The major portion of funds of small business investment companies is expected to come from private sources, and the ratio of debt to capital and surplus (including subordinated debentures held by SBA) may not exceed 4 to 1.

Equity capital will be provided for small business concerns by small business investment companies only through the purchase of convertible debentures on terms and at rates fixed by the investment companies. Such debentures shall be callable on any interest date and upon three months' notice at par plus accrued interest, and shall be convertible, at the option of the lender or of any holder in due course, into stock of the small business concern at the "sound book value" of such stock as determined by the parties at the time of issuance of the debentures. Section 304.

As a condition of loans by small business investment companies, the borrower may be required to refinance all outstanding indebtedness so that the investment company is the only holder of any evidence of indebtedness of the issuer and may, in addition, be required to obtain the approval of the investment company before incurring any indebtedness thereafter. Furthermore, the borrower will be required to purchase stock in the investment company in any amount equal to 2% of the first $50,000 received, 3% of the second $50,000 received and 5% of all amounts in excess of $100,000 received. The borrower and lender have the privilege of agreeing upon the type or class of such stock and its voting rights and privileges, giving full effect to applicable laws and the charter and approved plan of operation of the investment company. Reg. 107.304 (b).

Small business investment companies will, for the most part, make long-term loans to incorporated or unincorporated small business concerns. Long-term loans must have maturities of not less than 5 years; however, incidental short-term loans may be made when necessary to protect the investment company's interest. Maturities of loans may not exceed 20 years, but maturities may, under certain circumstances, be extended or loans renewed for additional periods not exceeding 10 years. Section 305.

The aggregate amount of obligations and securities acquired and for which commitments may be issued to a single small business con-
cern by any small business investment company shall not exceed 20% of the combined capital and surplus of the investment company unless prior approval of the SBA is obtained. However, two or more investment companies may join to provide assistance to a single business concern.

Small business investment companies are authorized to handle any servicing or initial investigation required for loans through banks and other financial institutions on a fee basis. They may, in addition, use the advisory services of the Federal Reserve System and of the Department of Commerce. Conversely, such companies are authorized to have on their staffs persons competent to provide consulting and advisory services on a fee basis. Section 308.

Regulations promulgated under the Small Business Investment Act of 1958 provide for a minimum of Federal governmental control and interference in the management of licensees, but they do contain several requirements of particular interest to CPA's.

Licensees are required to keep current financial records in accordance with generally accepted accounting principles and to make full and complete disclosures to their investors and shareholders with respect to their activities. They must also submit to shareholders and to the SBA an interim report covering operations for the first six months of each fiscal year. At the end of each fiscal year, they are required to submit "a report containing financial statements for the year and an opinion thereon by an independent Certified Public Accountant based on an audit conducted in accordance with generally accepted auditing standards." Reg. 107.302-3.

The SBA has recently announced that it is preparing special manuals to guide CPAs who audit financial reports of small business investment companies. It is contemplated that these manuals will prescribe minimum requirements for auditing and examining the investment companies. The Administrator of SBA has indicated that the program of audits by CPAs will be given "a good trial, and I feel that it will be successful—with savings to the taxpayers through the use of fewer Government employees and with benefits to the investment companies." (See "Government," Journal of Accountancy, August, 1959, page 10.)

Each licensee shall be subject to examinations made under direction of the SBA by examiners selected or approved by it; the costs of such examinations may, in the discretion of the SBA, be assessed against the licensee.

Licensees are also required to submit, in a form prescribed by the SBA, a supplementary report to it at the end of each six months period, which report must include a review of activities of the licensee during the period involved, with a statement and evaluation of such debentures, notes, loans, etc., as have been acquired during the reported period. Licensees shall also, upon request or call by the SBA, furnish interim reports covering such matters as SBA shall require. Reg. 107.308-5.

Licensees shall maintain fidelity or such other types of bonds or insurance as shall be required by SBA.

Under certain circumstances, securities of small business investment corporations are exempt from registration under the Securities Act of 1933. See Securities and Exchange Commission Regulation E.

Also of interest to CPAs are certain provisions of the Technical Amendment Act of 1958 with respect to tax treatments of losses on small business investment company stock and losses of small business investment companies. Section 57.

In an article, "Accountants and the Small Business Investment Act," Journal of the Accountancy, July 1959, pages 28-30, John M. Stoy, Chairman of the AICPA's Small Business Committee, comments on some of the ways in which CPAs can be of assistance to clients contemplating financing from small business investment companies. He also points out certain danger areas for the prospective borrower.

Editor's Note. The foregoing article appeared in July-August 1959 issue of C.P.A. Ledger, Oklahoma Society of Certified Public Accountants. While it is the policy of The Woman C.P.A. to use only previously unpublished material, an exception has been made in this instance due to the regional nature of the original publication. Consent to reprint has been graciously accorded.
Annual Meeting to Feature Treasurer of the United States

Colonial Philadelphia offers women accountants an opportunity to hear the Treasurer of the United States speak, plus an additional triple treat, the opportunity to attend the Annual Meetings of three nationwide accounting societies for the travel price of one.

The Joint Annual Meeting of the American Woman’s Society of Certified Public Accountants and the American Society of Women Accountants will take place in that city September 21, 1960, with the Warwick Hotel as headquarters, and the Philadelphia Chapter of ASWA as hostesses.

The Annual Meeting of the American Institute of Certified Public Accountants will open in the Quaker City on September 25 and continue through September 28 with the Pennsylvania Institute of Certified Public Accountants and its Philadelphia Chapter as hosts.

Mrs. Ivy Baker Priest, Treasurer of the United States, will be the prime attraction at the AVSCPA-ASWA Meeting as speaker at the Annual Banquet, Saturday evening, September 24. Other featured speakers will be Mrs. Mary S. Tross, C.P.A. of Newark, New Jersey who will discuss ethics and conduct to tax practitioners, and Dr. Bernadine Meyer, of Pittsburgh, Pennsylvania, who will speak on the subject “The Accountant Communicates.” Other speakers will consider the subjects of Budgeting and Pension and Profit Sharing Plans.

The AICPA 1960 Annual Meeting will feature outstanding leaders of the profession discussing such subjects as “Ethics of Tax Practice,” “Accounting for Regulated Industries,” “The Financial Press Talks to CPA’s,” “Small Firms Can Handle Big Audits Through Teamwork” and “Uniform Accounting and Tax Provisions of State Laws.”

Included in the planned AICPA social and recreational events will be the President’s Reception at the magnificent Museum of Art and a symphony concert by the famous Philadelphia Orchestra at the Academy of Music.

The 1960 convention city of accountants is a very enjoyable and exciting place to visit. The nation’s most historic city and number one shrine, it is at the same time a great bustling metropolis which in the last few years has been experiencing a renaissance unequalled by any other American city. If you have not visited Philadelphia recently, you will be amazed at the face-lifting and redevelopment that has taken place, particularly in the mid-town area.

In the heart of the Delaware Valley, Philadelphia has an atmosphere all its own. It is a town that combines patrician elegance with Quaker simplicity and today adds a big dash of wide-awake excitement to produce something that just is not found elsewhere.

The city on the banks of the Delaware has great museums—such as the aforementioned Museum of Art—and famous scientific and educational institutions—such as the Franklin Institute and the Fels Planetarium. It has giant department stores and nationally known specialty shops. Its Chestnut Street compares favorably with New York’s Fifth Avenue. Its restaurants rank with the best in cuisine and service. In and around Philadelphia, you will find restaurants specializing in German, Chinese, Polynesian, and Pennsylvania Dutch foods.

Within a pleasant walking tour are dozens of early American landmarks, all worth seeing, all reminders of the nation’s and Philadelphia’s great past. There is Independence Hall and its Liberty Bell. Gone are the shabby structures which once obstructed the view of this famous shrine. The old historic building is now fronted

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What About the Competition?

By CHARLOTTE R. GAINES
Atlanta Chapter ASWA

Much has been written and said about the many opportunities for women in the accounting profession. But what about the competition . . . and the attitude displayed by some men in the field?

A young girl new to the business world laments, “I just feel them wishing I wasn’t there, when nothing is said.”

It would be an insult to the intelligence to say that this situation does not exist. It does. It exists in accounting and in many situations where men and women are striving for professional status. But the fact that the problem exists is not nearly so important as one’s reaction to it. And herein lies the woman accountant’s golden opportunity. Ignoring the competition, she can weave her own garment of security with the indestructible threads of poise, dignity, and intellectual “know how.”

Why compete? The woman accountant has an important role to play and those who do not accept that fact are not her problem. Keeping the mental fist clinched in a constant state of defense saps intellectual energies which can be better used for doing a good job.

This does not mean that she becomes the carpet over which others walk to higher and better positions. No one who has achieved any degree of success would suggest such an attitude. Success in any endeavor takes hard work, but work doesn’t mean fighting what someone else might be thinking.

Mary Hall made a valuable comment in her article “No Opportunities” in the February issue of the “Woman C.P.A.” She said “The key to the door where opportunity knocks for women (or men) in this accounting business is the demonstrated ability to get the job done.”

“. . .the demonstrated ability to get the job done . . .” is the woman accountant’s secret weapon for completely disarming the opposition. Without becoming a “female Machine-Gun Kelly” her place is set and progress assured if she has demonstrated ability to get the job done.

What she may consider competition many times is nothing more than a bruised ego. Amusingly, the man who lavishes attention on his lady in the evening may regard her with suspicions of an underground fifth-column movement in the office the next morning. But this is not her worry. She is poised and dignified and busy proving she has a head on her shoulders.

A prominent male C.P.A. once said, “Sixty per cent of the women in this business are using it as a bridge to marriage; twenty per cent just use it to kill time; but the other wonderful twenty per cent who are sincerely interested in the profession for its own sake are the finest accountants and C.P.A.’s you’ll find anywhere. I wish I had an office full of ‘em. It’s just finding them.”

Right motivation, coupled with active participation in the professional societies, including A.S.W.A., is the successful stepping stone to becoming one of those “finest accountants and C.P.A.’s you’ll find anywhere.”

(Continued from page 6)

by a beautifully landscaped Mall. A fountain plays majestically in the distance as the visitor’s eye travels down the spacious lawns. To the east of Independence Hall stretches Independence National Historical Park where numerous other historic shrines are being restored or rebuilt. They include Carpenters’ Hall where the First Continental Congress met in 1774 to debate the question of revolution and independence.

Outside the national park, there is the Betsy Ross House in which, tradition says, the little seamstress stitched the first Stars and Stripes.

Since 1787 when delegates from the thirteen original states gathered in Philadelphia for the convention which framed and adopted the Constitution of the United States, hospitality has been synonymous with the City of Brotherly Love. The same spirit of friendliness and service to the visitor is very much in evidence in the city today. A striking symbol of it is the new Hospitality Center of the Philadelphia Convention and Visitors Bureau which will open early in September. For a warm welcome and a wealth of information on where to go and what to see in the Quaker City, be sure to visit the Hospitality Center at 16th Street and Pennsylvania Boulevard in Penn Center when you come to the conventions.

For an outstanding convention experience, make your plans to be in Philadelphia in September and to take advantage of this bargain package—an opportunity to hear one of the country’s most outstanding women in public office plus the triple treat of three nationwide accounting society Annual Meeting for the travel price of one.
At the close of the 1959-1960 fiscal year, the membership of the American Woman's Society of Certified Public Accountants has reached an all time high and continues to grow. Each year we grow in numbers as well as in recognition by the general public and the profession. It has been gratifying to note that more of our members are becoming active in the activities of their state societies as well as in the American Institute of Certified Public Accountants.

Our program this year has concentrated upon obtaining more information about our members as well as about all women CPAs. These projects have not been completed at the time of this writing but full reports will be rendered at the annual meeting to be held at The Warwick Hotel, Philadelphia, Pennsylvania, September 22-24, 1960, and will also be published. We sincerely hope that many of you will be present in Philadelphia and that all of you will read the detailed annual reports.

In the area of procedural handling of the affairs of the Society, several changes have been inaugurated this year.

In accordance with the recommendation of the 1958-1959 Board of Directors, this administration has arranged for the transfer of much of the routine detail work from officers and directors to the National Office.

An early report by the Nominating Committee facilitated a May 14th election which in turn helped to promote a smoother transition of work from this administration to the 1960-1961 officers and directors.

A roster of the membership is being prepared as of the end of the fiscal year and we hope to have it distributed before the annual meeting. It is anticipated that this change in date of publication will make the roster more useful to the membership.

The success of any organization depends on the willingness of members to actively participate in its program. I earnestly urge each of you to cooperate with your incoming officers and directors in their efforts on your behalf.

It has been an honor and a privilege to serve as your President and I sincerely appreciate the cooperation, interest and support received from each of you.
Twenty-seven years ago, in Chicago, nine women certified public accountants organized this Society. From this beginning in 1933, our membership reached 485 in 1960.

As the number of women certified public accountants increases and as our Society grows, our objective—to advance the professional interest of women certified public accountants—becomes increasingly important. We can do much to accomplish this objective by participation in the Society's program, by membership in local chapters of the American Society of Women Accountants and by active membership in technical accounting organizations, particularly the American Institute of Certified Public Accountants, the American Accounting Association and the state societies of C.P.A.'s.

Even more impressive than our growth in numbers is the growth in the capacity in which our members may serve. Over the years, our Society and our members have witnessed changes and new developments in accounting theory and practice and in federal and state taxation. The business community has an ever increasing need for the services which certified public accountants perform, services well known to all of us—Independent audits, tax advice, system installations, tax returns and management counseling. The members of our Society are deeply aware of our responsibility to provide the highest quality of service to business and industry, and to supply them with reports based on sound independent judgment.

The officers serving with me this year are: Winifred E. Owens, first vice president, who will be responsible for public relations; Mary F. Hall, second vice president, education chairman; Grace S. Highfield, who as secretary will be responsible for compiling the yearbook; and Beth M. Thompson, treasurer.

The directors include the immediate past president, Katherine E. Pfeifer, whose responsibility will be policy and procedure; Ruth Kravits, continuing as membership chairman, Margaret E. Lauer, continuing as research chairman; Lucille R. Preston, publicity, and Catherine M. Ryan, publications.

To complete the team, Doris Parks has been appointed award chairman, Mary E. Ruddy, legislation chairman, and Madelyn Stephenson, chairman for budget and finance.

On behalf of the 1960-1961 officers and directors, I wish to express our appreciation of the confidence you have placed in us by electing us to administrate the Society's affairs during this year. We have inherited twenty-seven years of tradition, ideals and achievements. With your encouragement and cooperation, we shall try to add another year of progress to the history of the American Woman's Society of Certified Public Accountants.
Data Processing in a Small Business

By JEANNE F. ETIENNE
Cincinnati Chapter A.S.W.A.

Data Processing—Punched Cards—Tabulating Machines—these are all familiar phrases which have become part of today's business vocabulary. The complexity of the economic system has caused almost as great a change or revolution in the scope of the accounting function as the Industrial Revolution caused in the change of the economic system.

The economic system described by Adam Smith in his classic work "The Wealth of Nations" did not require punched cards or tabulating equipment. However, since that time in the seventeenth century, the industrial development of the world has been tremendous.

Because of technology, mass production and a free competitive system, there has been the production of more goods for more people. This increased output has resulted in the need for the organization of more equipment, larger plant facilities, and greater personnel in many locations, often throughout the world.

A factor complicating the economy further has been the relaxation of the "laissez-faire" theory and the resultant increase in government regulations. Tax regulations have been imposed upon business, and methods have been geared to the philosophy of tax collectors, rather than the long term thinking of the individual entrepreneur. Legislation regulating many business activities, together with the granting of increasingly larger numbers of government contracts, have required records and accounting systems conforming with government requirements. As a result many businesses have found it advisable to maintain more than one set of accounting records, in order to satisfy the regulatory agencies, and at the same time to present realistic information to the management and to the owners.

Therefore the accountant has been challenged to meet the needs of the 20th century economy. As American resourcefulness and ingenuity have solved the problems of increased low cost production by the efficiency of the "production line," it has also conquered the complexity and the vastness of the accounting function.

Today the accounting department has been recognized as an important source of profit, instead of the necessary evil of yesterday. Because of today's data processing methods and automation, reports on every phase of a company's business are quickly available to guide management's current decisions and future planning.

The punch card has become one of the symbols of data processing, and one of the most versatile is the marginal punched Keysort card of the Royal McBee Corporation. Keysort is the punched card method that put the original record to work, and is adaptable to variable volume and operations.

The Keysort card of original entry is designed to provide for the information desired, and the perimeter of the card is planned to reflect this. The margin of the card is divided for each classification to conform to pre-arranged codes, Operation Numbers, Job Numbers, Account Numbers, etc. The information on the card is key punched into the margin (at a rate of approximately 900 per hour). The cards are then sorted and tabulated.

The punching can be done on a variety of types of simple inexpensive equipment which is available on a reasonable rental basis. Sorting of the cards by various classifications is carried out with a stylus or sorting needle. Insert of the stylus into the group of cards results in the separation of notched cards from the group, making classification a simple manual procedure.

To provide greater adaptability, Royal McBee has introduced a low cost versatile punched card process machine, known as the Keysort Tabulating Punch. This machine punches quantities and amounts into the body of the original Keysort record card while it accumulates and prints totals on tapes. The tabulating feature automatically processes these cards through all stages until all reports are prepared.

The tabulating punch can punch two quantities into the body of a Keysort card while printing, at the same time, these quantities on a tape, accumulating the amounts for totaling. The punch feature can also reproduce punch quantities from a pre-punched card. It automatically punches the accumulation into the summary cards.

The quantities, amounts, time intervals, etc. written on the card at the source can be punched into 8 fields on this card. This punching is done, in effect, to items that are being totaled for verification with some type of control. Actually, the cards are not being punched just for the sake of putting the desired information into the card; but rather the punching is accomplishing a function that would ordinarily be done on an adding machine. Once the cards have been punched, they can be run through the tabulator after each sorting to accumulate the information.
for as many classifications as may be coded on the perimeter of the cards.

Since there are as many applications as there are persons using this method of data processing, any description of the use of Keysort must be made in general terms. This discussion will attempt to illustrate a method of labor distribution, job costing, and accounts payable as carried examples.

To begin, weekly clock cards are placed at the time clocks for each employee to ring at morning, noon and evening. At the job level there is a brown Keysort labor time card, which is used by the productive workers. A blue card is used for indirect workers. Code numbers are assigned to all operations and to all types of nonchargeable time. On these cards the employees record starting and stopping time on the job, job number, department code, name, clock number, customer, operation code, machine number and cost center. A new card is used for each job or period of time involving a different operation.

At the end of each work day, the brown and blue cards are collected and sorted to separate the direct and the indirect, and the information furnished by the employee is punched or coded into the margin of each card. The cards are sorted by clock number. The elapsed time on each card is determined and added together for each employee. This total must agree with the hours indicated on the clock card. The total hours for the day are posted on a summary card for each employee.

A green summary card is headed up for the employee for each different cost center in which the employee may have worked that day.

The employees' individual cards are sorted into centers. The total time spent in each center is recorded on the correct summary card. Chargeable and nonchargeable time are entered in separate columns.

The nonchargeable cards are separated from the chargeable cards. The chargeable cards are sorted into job number sequence and filed in the chargeable time file by order number, and are available for the cost department.

The nonchargeable cards are accumulated until the end of the week, when a report of nonproductive hours by kind of employee is made.

At the end of the week the green summary cards of each employee are totaled. The total hours worked are extended by his hourly rate. The total of these extensions must agree with the gross earnings as computed by the payroll department. The value of the total hours worked on each summary card becomes the total charged to the cost center. The value of the nonchargeable time becomes the indirect charge to the cost center. The difference between the total charge and the indirect charges becomes the direct charge to the cost center.

The summary cards for the department are sorted by the cost centers. The direct, indirect, and total charges for each center are totaled and these totals are recorded and accumulated. To these totals of the cost center is added the foreman’s salary. The grand total of all cost centers for a department must agree with the payroll for that department.

The totals of chargeable hours for each cost center are recorded and accumulated until the end of the month. The total of these represents the number of chargeable hours worked in the cost center during the month. An hourly rate for each cost center is established by dividing the total year’s expense for a cost center by the total chargeable hours for the year worked in that center. Consequently this hourly rate represents labor and factory burden. It is advisable to review this inclusive rate from time to time.

A Keysort card is also used for accounting for the material used. Requisitions for materials are made in duplicate. After they are punched, one copy goes to the storeroom and the second to the cost department where they are costed and then sorted by job number.

Outside services and purchases are coded on a Keysort card in duplicate in the voucher register, one copy going to the cost department where it is handled in the same manner as the material requisitions.

When the job has been completed and shipped, the cost department takes from the files the chargeable labor cards and the material cards for that job. A summary card is made and is used to accumulate all the costs for the finished job. Total labor costs by operation are posted to this card and are added together to determine the total labor and burden. The material cards are likewise posted in total to the summary card. To these totals is added a percentage to include administrative and selling expenses.

The labor and material cards remaining in the open file constitute the work in process inventory at a given time.

To summarize, with Keysort, the following information is available for up-to-the-minute management reports:

1. Control of labor hours or units
2. Cost of operation and cost center
3. Chargeable and non-chargeable time
4. Check of labor rates
5. Actual material used
6. Work in process inventory

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AUDITING UNEMPLOYMENT BENEFITS PAID TO EMPLOYEE BY THE STATE

When the state unemployment bureau furnishes the employer with a summary of the charges made to the employee’s account for payments made to the employee, a check should be made to see if the person who was paid benefits is eligible for them.

First, determine that the person paid benefits is your employee, that he worked in the period paid and that the amount of benefits paid is correct. He may have had earnings which would cancel the benefits or would entitle him to a partial benefit only. You are allowed a certain time to protest the charge and can receive credit for any charges made in error to your account if the protest is timely.

Supplemental unemployment benefits are calculated on the basis of a percentage of the employees earnings less the state unemployment benefits. Therefore, it is necessary to verify the amount of benefit paid and the validity of the claim.

Coletta J. O’Brien, Cleveland Chapter

ENDORSE WITH CARE

When endorsing checks for deposit, follow the words “For deposit only” with the name and address of the depositary bank.

Checks endorsed “For deposit only,” without the name and address of the bank have been known to fall into the hands of unauthorized persons who have only to open an account in a bank under the endorser’s name, deposit the checks, and then withdraw all of the funds within a short time.

Eileen Griggs, Los Angeles

TIGHT CONTROL OVER CONSTRUCTION LABOR COST

Before quitting time each day, the foreman or supervisor in the field, telephones the home office the hours worked by each man, the over-time hours, the job number or code and whether or not the work is on schedule. By turning in the time each day, the cost and distribution can be computed daily and each job’s progress reviewed. Any labor costs not in line with the estimate of the job will signal a trouble spot to the home office as well as to the field supervisors.

By figuring each day separately, at the end of the pay period, the time can be quickly summarized to a total pay. This facilitates getting the pay into the hands of the workers where time elements and union agreements are involved.

This procedure could also be adapted for use by a small machine shop.

Mary I. Russell, Cleveland

THE NATURE OF RESEARCH

Dr. Helene M. A. Romanauskas well states the increasing recognition of the importance of research to the science of accounting. Particularly does she relate all accountants to the responsibility for this research with this statement: “In his every day work, the accountant has many opportunities for new ideas and he has a moral obligation to his client and to his profession to develop them, and by applying scientific methods as practical tools for the future, expanding the perimeter of the accounting theory.” (The Woman C.P.A., June 1960)

—Congratulation to Marion K. Charles for a thorough coverage on the tax status of voluntary payments to widows of employees.

Did reading this issue of the Woman C.P.A. stimulate your thinking? Was something of especial interest or help to you? Did you disagree with something you read? You are invited to say to say your piece in the Comment and Idea Exchange.

(Continued from page 11)

A simpler application of the Keysort System is the use of the peg board for accounts payable, general journal and general ledger. The board is designed for the multiple single write system. The Keysort card is inserted for the distribution of the entry to the proper account. At the end of the period, the cards are punched for account number, sorted, totaled, and in the case of accounts payable, the entry to accounts payable for the period is made.

Note: While this article describes a specific system offered by one company, others manufacture and market similar equipment which is being utilized by small businesses.

Mr. Barr is Chief Accountant for the Securities and Exchange Commission, but is expressing his own views as he reviews the effects the requirement of the regulatory agencies have had on some of the major phases of accounting practice.

When the Securities Exchange Act was first proposed many practicing accountants expressed real concern that uniform accounting requirements would be imposed on all industry, thus following the pattern of the uniform system of accounts required of all railroads. The rules included in the Securities Acts as finally adopted gave the Commission authority over accounting records only in general terms; supplementary regulations have included more specific regulatory powers in certain areas.

While the SEC was the first Federal agency with the authority to require that financial statements be certified by independent accountants, more and more of the Federal agencies are now requiring such certified statements. In the older agencies which exercise regulatory control through a uniform system of accounts, an independent audit is not usually required. However the author feels, that even under such conditions, the requirement of an audit by a certified public accountant would provide a very effective check on management.

Rather than striving to obtain uniformity in financial reporting, the SEC has attempted to promote clarification and general acceptance of accounting principles. While complete agreement as to the application of accounting principles will probably never be achieved on some questions, the author feels the profession and the agencies should constantly strive to reduce these areas of disagreement. Verification and pricing of inventories, charges against income arising from stock options, and disclosure of liabilities assumed under long-term leases are some of the questions he discusses as representative of the areas where complete agreement has not been reached.

While at one time the SEC required quarterly reports on operations, such interim reports were found to work an undue hardship in some areas. Later this requirement was changed to a mid-year report giving certain data on summarized earnings; the Commission recognized estimated figures would be used in the preparation of such reports, and so exempted them from liability for misleading statements under Section 18.

Constantly changing conditions in the business world make it necessary that the regulatory agencies and the accounting profession co-operate in giving effect to such changes as they are reflected in the accounting records. Observation of the earlier statements filed with SEC, as contrasted with those which meet the present requirements, will reveal that progress has been made in keeping pace with a constantly changing economy.

FINANCIAL CONTROL IN LOCAL LABOR UNIONS, by Wade B. Salisbury. N.A.A. Bulletin, May, 1960 (Section 1)—Vol. XLI No. 9, pp. 49-61.

Recognizing the large sums of money which pass through union treasuries, this paper is devoted to suggestions on ways to improve the accounting records and the control of union funds. Legislation recently enacted, aimed at establishing a basis of control through financial reporting, has not yet disclosed the exact reporting requirements.

The financial reports on union funds should be so presented that the rank and file of union members may fully understand the facts disclosed. The author suggests fund accounting, which is required by some international unions, might also be used by local unions. He assumes a typical situation with three funds being used—the general fund, strike fund and the death benefit fund. A chart of accounts to be used with each of the above funds, together with exhibits of typical financial statements, are included.

The author recommends a budget be prepared and used by management as a key to control. Membership statistics will provide the basis for forecasting the major source of cash receipts; while cash disbursements are not as easily predicted, with careful study and cooperation fair estimates may be made. Adaptations of the fundamentals of a good system of internal control are suggested, as they may apply to the activities of a typical local union.
So this is the "count-down-year" on T & E expenses. We have been warned in 1958 by the Line 6(a) approach. This approach is slightly reminiscent of the penalties imposed in 1948 for failure to file an estimate and penalties for underestimation of current year income taxes. The former penalties were never really imposed but the latter since 1952 have become a reality.

We as accountants and our clients have been blissfully complacent with reliance upon the "Cohan Rule." After all, what have we had to lose beyond the 50% line of safety?

And now in 1960, we have new rules and this time fortunately or unfortunately as the case may be, they are rules which we and our clients and employers are going to have to face tax-wise and record-wise this year. We cannot hope for another relaxation upon the part of the Internal Revenue Service as we did in 1958 and 1959 because the movement for stringent regulations on T & E in 1960 are not only highly publicized but are being reinforced legislatively in mid-1960.

As in all movements of this kind, preparedness is essential to survival. The Internal Revenue Service will rely upon the "red-flags" which will be required on 1960 Tax Returns. They will require a completely new method of reporting. It behooves us if we are in the public accounting profession to advise our clients of the necessity to maintain the required records. And if we are employed in private industry we might as well gear our accounting system in mid-year to meet the end-of-the-year-1960 requirements.

And what are these requirements? For the first time in the history of tax-law a filed tax return will of necessity include the following information:

(1) Every corporation, partnership and proprietorship will have to list on a schedule any deductions for expense account allowances paid to or for certain key employees.

An expense account allowance covers not only amounts advanced or reimbursed to, or paid directly for, an officer, partner, employee or proprietor. (Credit-card charges of all types are also included.)

Corporations will have to list such payments for the 25 highest paid officers, based on compensation plus the expense account allowance.

Partnerships will have to do likewise for the highest paid partners and the sole-proprietorship will not only have to account for the proprietor but his five highest paid and compensated employees.

Additional information in the form of a "yes and no" questionnaire dealing with the maintenance of permanent installations such as a hunting or fishing lodge, hotel suite, yacht and etc., will be included in the form for reporting.

Another form of check will be the nebulous question of "acceptable business practices." More and more detailed records will be necessary, such as the "why, who, what, when, and where."

Your Editor has only this to say, "Good luck, in wabbling through the 'w's' during this year of 1960."

ANNUAL MEETING AMERICAN SOCIETY OF WOMEN ACCOUNTANTS

In accordance with ARTICLE X, Section 1. of the National By-Laws of the American Society of Women Accountants, notice is hereby provided that the 20th Annual Meeting of the Society will be held in conjunction with that of the American Woman's Society of Certified Public Accountants at the Warwick Hotel, Philadelphia, Pennsylvania, September 22-24, 1960. The annual business meeting of the American Society of Women Accountants has been called for 3:00 P.M. on Thursday, September 22, 1960.

Pauline R. Cady, National Secretary
American Society of Women Accountants
Chapter Presidents—1960/1961

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