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Check forgeries and alterations

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can prove the essential accuracy of the inventory quantities. Manifestly, an accountant who makes a survey of the company's products, their distribution and the materials entering into them, as a foundation for his verification of the inventory, is better prepared to complete an intelligent audit of the other assets and of the liabilities.

Bankers have confidence in a financial statement supported by an unqualified certificate evidencing an unrestricted audit. A company cannot afford to have its credit jeopardized by the suspicions that may be aroused by qualified certificates or by employing accountants whose standards permit the use of an unqualified certificate with a careless or incomplete audit.

Comment

WE are pleased to reproduce the foregoing editorial, particularly inasmuch as it stresses the thought that an auditor should be free, untrammelled, and unrestricted in his work. Obviously, every certified public accountant dislikes to have his work circumscribed, or to have limitations placed upon his services. On the other hand, all business concerns requiring the services of auditors have not reached the point where they are able to appreciate the advantages of full review, regardless of what they consider the particular need for the auditors' services. Consequently, as long as this condition continues, it need not be thought strange if those who employ accountants, offer for credit purposes what they have on hand in the way of financial statements. Further, it is possible that those who so use certified financial statements may attempt to obtain their lines of credit with a minimum of expense for auditing services.

Bankers, figuratively speaking, are the consumers of a large volume of financial

statements prepared or certified by accountants. The bankers have learned from experience that there are various kinds of reports issued by accountants, and that various reports represent different gradations of services. The bankers have learned, also, that it is incumbent upon them to read and examine all of a given report before reaching a conclusion as to the value of the report.

The editorial reflects something of an evolutionary order which has been going on in the field of bank credit in so far as the services and reports of certified public accountants are concerned. Having reached a conclusion as to what they require from borrowers as a basis for their judgment in passing on credits, the bank credit men have, with characteristic succinctness, said what they want. It has been well said. The burden of satisfying the bankers as well as the client, in cases where the client places no restriction on the work of the accountant, might appear to rest with the accountant.

Check Forgeries and Alterations

LOSSES from forgeries and alterations it has been estimated occur in the following proportions:

1. Forgery of signature, 45 per cent.
2. Forgery of endorsement, 50 per cent.
3. Alteration of instrument, 5 per cent.

There often is some question in cases of this kind as to who shall bear the loss, the

bank or the depositor. The legal responsibility is covered by the Negotiable Instruments Law, which has been adopted in substantially the same form by all our states.

The general rule in the case of a forged signature of the maker of a check is that the bank is liable. A bank must know the

signatures of its depositors. Where a signature is forged or made without authority of the person whose signature it purports to be, it is inoperative, and no right to retain the instrument, or give a discharge or to enforce payment against any party thereto can be acquired by such signature unless the party, against whom it is sought to enforce such right, is precluded from setting up the forgery for want of authority.

It makes no difference how perfect may be the forgery of the name of the maker. The bank is liable because it has made an unauthorized payment. Since the relation between a bank and a depositor is that of debtor and creditor, when a depositor draws a check, he instructs his debtor, the bank, to pay to a third person. The bank has no right to pay anyone except upon the authentic order of its creditor. It follows then, that when a bank pays a check not signed or authorized by the depositor, it is doing something which it has no right to do, and must suffer any consequent loss.

However, when a depositor holds out to the bank or others relying upon appearances that a certain person has authority to sign his name to checks, the depositor cannot set up a lack of authority on the part of the person signing. This situation rarely arises, because banks usually require the registry with them of signatures to be honored.

A depositor must use reasonable care and diligence in examining returned checks and bank statement, and in comparing such statement and checks with his stub book. Failure to exercise such care will preclude him from setting up forgery. A person using a stamp signature may suffer loss if he negligently allows others access to it.

The bank, as between the bank and the depositor, usually is liable for loss under a forged endorsement. Except in very extraordinary circumstances the depositor is not bound by any credit erroneously given by

the bank to an endorsement. As stated in connection with forged signatures, the depositor must bear the loss where to all appearances he has held out that a certain person has authority to endorse checks for him or has been negligent in examining the bank's statement of his account and his canceled checks.

Under the law a forged endorsement is "wholly inoperative" against the drawer or the endorser whose signature is forged and confers no right to retain the instrument or to enforce payment against the drawer of the check. Any person who is asked to cash a check has a right to inquire whether or not the endorsement is genuine. If the check is cashed, and subsequently it is found that the endorsement was forged, the party cashing the check has no action, except under the circumstances already mentioned, against the drawer or the endorser whose name was forged. Their remedy is against only the person who forged the endorsement. If there were endorsers subsequent to the forged endorsement, any holder can go back to a prior endorser as far as the forged endorsement, for reimbursement. A bank, it is evident then, cannot enforce payment against the depositor who is the drawer of the check, and its only right is against persons endorsing subsequent to the forgery.

Check alterations are few in number compared to forgeries. The depositor is not liable for an increased amount unless his negligence directly facilitates the alteration. The use of protective devices will avoid such losses. A depositor is entitled to use the ordinary form of check and to sign his name in ink in the form of signature filed with the bank. He is not required to use all known means of protection. However, the use of protective devices is to be encouraged, for anything which will help to prevent losses from forgeries or alterations to either a bank or its depositors is much to be desired.