1918

Trust company auditing

Anonymous

Recommended Citation
Haskins & Sells Bulletin, Vol. 01, no. 09 (1918 November 15), p. 70-71; Haskins & Sells Bulletin, Vol. 01, no. 10 (1918 December 15), p. 80-82; Haskins & Sells Bulletin, Vol. 02, no. 01 (1919 January 15), p. 06-08; Haskins & Sells Bulletin, Vol. 02, no. 02 (1919 February 15), p. 14-16

Trust Company Auditing

A TRUST company is a hybrid organization incorporated under the laws of some one of the various States or of the District of Columbia. Any attempt to classify a trust company as to the kind of business transacted meets with difficulty, in that many of them carry on a banking business in addition to performing the function of a trustee, while many others combine these functions with title insurance and what-not.

In the State of New York, Laws of 1914, Chapter 369, "when authorized by the Superintendent of Banks, as provided by Section 23 of this Chapter, seven or more persons may form a corporation to be known as a trust company. Such persons shall subscribe and acknowledge an organization certificate, in duplicate, which shall specifically state:

(1) The name by which the trust company is to be known.

(2) The place where its business is to be transacted.

(3) The amount of its capital stock (ranging from $100,000.00 to $500,000.00, depending upon population) and the number of shares into which such capital stock shall be divided.

(4) The names and places of residence of the incorporators.

(5) The term of its existence, which may be perpetual.

(6) A declaration that each incorporator will accept the responsibilities and faithfully discharge the duties of a director therein, if elected to act as such, when authorized by the provisions of this chapter."

"Every trust company shall . . . . . keep on deposit with the Superintendent of Banks interest-bearing stocks or bonds of the United States, or of this State, or of any city, county, town, village, or free school district in this State authorized by the Legislature to be issued to the amount in value of ten per centum of its capital stock," (but not less than $20,000 to $100,000, depending upon the population of the place in which the company is located.)

Trust companies derive their corporate powers from the general and stock corporation laws of the State, the special provisions of the banking law (Consolidated Laws of New York, Chapter 2, Article 5, Paragraph 185), and such additional powers as may be granted to them under their respective charters.

Most trust companies in this State are members of the Clearing House Association, and many of the leading ones are members of the Federal Reserve System. In this latter particular, the trust companies are rapidly falling into line.

A trust company has as its object the making of profit, like any mercantile organization. It is divided, generally speaking, into two parts: the banking department and the trust department. Today many trust companies have foreign departments.

The functions of the banking department are, in a general sense, to receive deposits, make loans, invest any surplus funds, and maintain the necessary legal reserves.

The following are the functions of the trust department:

Establish and maintain trusts with—
- (A) Individuals.
- (B) Corporations.

(A) Called Individual or Personal Trusts:
- (1) Serving as depositary under agreements with living persons.
- (2) Serving as Executor and Trustee under wills.
- (3) Serving under appointment of courts:
  - (a) Substituted Trustee under agreement or will.
  - (b) Guardian of minors.
  - (c) Trustee for incompetents

(B) Called Corporate Trusts:
- (1) Trustee under Mortgage to secure bonds:

(a) Real estate mortgage.
(b) Chattel mortgage.
(c) Collateral trust mortgage.
(2) Depositary under Voting Trust Agreements.
(3) Registrar and Transfer Agent. (To guard against overissue and forgery of stock or loss of bonds.)
(4) Reorganization depositary.

The foreign department buys and sells bills of exchange, issues letters of credit, makes collections in foreign countries, makes cable remittances, etc.

The accounts of a trust company are summarized in a general ledger which, as a rule, contains the classification of accounts for the banking department and controlling accounts for the trust department and the foreign department. The latter ledgers contain the classifications of accounts for the respective departments.

Reverting to the banking department, it may be said, in generalization, that deposits result in cash and collection items against other banks and trust companies. Loans of cash are made on notes—demand, time, customers', some or all of which are secured by collateral. Surplus cash is invested in securities or loaned on bonds or mortgages. Reserves which range from ten to fifteen per cent. of the deposits must be maintained as follows:

"At least one-half of the reserves on hand shall consist of gold, gold bullion, gold coin, United States gold certificates or United States notes, and the remainder shall consist of any form of currency other than reserve notes authorized by the Laws of the United States. If any trust company shall become a member of a federal reserve bank, it may maintain as reserves on deposit with such federal reserve bank such portion of its total reserves as shall be required of members of such federal reserve bank."

It should be borne in mind, in connection with the term "reserves" that the sense is the exact opposite of that in which it is used in ordinary accounting terminology. When an accountant speaks of a reserve, he usually refers to a part of the profits which has been set aside. Such an account is always found on the credit side of the ledger, and represents merely an adjunct of the surplus account. If the accountant wishes to convey the idea that assets have actually been set aside, he refers to the operation as the "funding of the reserve." The banker, when he refers to a reserve, means the actual setting aside of funds for the purpose of providing for some liability.

Growing out of the various operations suggested above, there is need for accounts on the general ledger of the banking department somewhat as follows:

Debits	*Credits*
Cash in office	Depositors—open accounts
Cash in vault	Time certificates of deposit
Cash on deposit with other banks and trust companies.	Demand certificates of deposit
Due from other banks	Certified checks
Demand loans	Due to other banks
Time loans	Coupon deposits
Customers' loans	Cashier's checks
Bills purchased	Bills discounted
Stocks and bonds	
Bonds and mortgages	

(To be continued)

Solution to Non-Par Value Stock Problem

THE State of New York, under date of April 15, 1912, passed a law (Laws of the State of New York, 1912, Chapter 351) known as the Non-Par Value Stock Law. It grew out of the practice of "watering" stock, and was offered as a remedy for same. While the law has been in force several years, comparatively few newly organized corporations have taken advantage of its provisions. The law relates only to common stock, and provides generally as follows:

Any corporation at formation or reor-

Trust Company Auditing (Continued)

The audit of the accounts of a trust company requires some knowledge of the form, content, and operation of the instruments of banking. Such instruments are, in part, indicated by the titles of the accounts set forth in the classification of accounts for the banking department in the previous number of the *Bulletin.*

Cash in office, as distinguished from cash in vault, includes the bills, gold, silver, change, and tickets in the cages of the paying and receiving tellers, any petty cash and as well the cash, checks, and coupons in the rack department or the transit department.

Cash in vault includes not only the cash necessary to meet the requirements of the legal reserve but any cash in excess of the current needs of the paying teller.

Cash on deposit with other banks and trust companies is no different in the case of a bank than it would be in the case of a mercantile concern. It is one of the means employed by banks in distributing surplus funds for credit purposes, obtaining a little interest on surplus funds, or facilitating payments on the part of banks outside of the larger centers. The accounts with the individual banks are usually found on the general ledger.

Due from other banks is the account which represents the cash items chargeable to banks other than those which are members of the same clearing association. It represents the work of the transit department. This should not be confused with the collection department, which exists principally for the accommodation of customers in the collection of drafts, notes, checks, etc. The controlling account on the general ledger called "Due from Banks" is supported by the "Bank Ledger."

Demand loans and time loans are loans in the true sense. The interest is, in the case of demand loans, of necessity paid at maturity, as is usually the case with time loans. These loans are usually secured by collateral and are therefore a special form of note, larger than the usual size, called a collateral note. It gives the holder the right to demand additional security from time to time, if desired, and, in case of failure to comply with such demand or to meet the note at maturity, to sell the collateral. There is no difference between a time and a demand note except that indicated in the description, namely, that one is payable on demand, while the other is payable at a time fixed or determinable.

Customers' loans are more likely to be made on the usual form of promissory note. They are probably in the majority of instances discounted, and are therefore, in the true sense, discounts. Loans are technically distinguished from discounts by the interest. In the case of a loan the payment for the use of the money is made at the time the note matures; discounts, at the time the money is borrowed, that is to say, in advance. Customers' loans are, in the balance sheet, usually combined with time and demand loans under the caption "Loans and Discounts."

Bills purchased, technically speaking, should include only bills of exchange. The term often does include notes, frequently referred to as commercial paper.

The account "Stocks and Bonds" should be understood to cover only such securities as represent an investment of the bank. It does not include stocks and bonds or other miscellaneous securities held by the bank as collateral for loans. The latter are entered only in memorandum form on some subsidiary record and in connection with the loan to which they relate. They are not controlled.

It would perhaps be preferable were the account "Stocks and Bonds" to be called "Securities Owned," since the latter is broader and would include miscellaneous securities which are sometimes found, such as syndicate participations, certificates of indebtedness, receipts for subscriptions to capital stock, scrip, etc.

It should be observed with regard to stocks that they may differ as to the par value and as to kind, namely, preferred, common, cumulative preferred, non-par value, etc. It should also be kept in mind with regard to stock that it gives rise to dividends and that dividends are instantaneous. Dividends do not accrue like interest, but arise at the instance of declaration at the hands of the directors.

Bonds, on the other hand, are as a rule, a direct liability of the issuing company and bear interest which runs with the lapse of time. It therefore follows that any consideration or treatment of the bond for accounting purposes which ignores the interest is incorrect. Bonds are usually secured by mortgage on realty, equipment, or securities deposited in trust as collateral; hence, they derive such names as first mortgage bonds (understood from usage to apply to realty), equipment bonds, collateral trust bonds, etc. The term "debenture" is often loosely used in connection with bonds. Strictly speaking, a debenture is not a bond. It is, as a rule, an unsecured instrument which evidences indebtedness. Income bonds, although having a claim junior to the other bonds, are secured as to principal. The payment of the interest is contingent upon the earnings. If after the necessary charges have been met the balance of earnings is not sufficient the company is under no obligation to pay the interest.

Interest on bonds is paid in two ways: by check and coupon. The first form is used where the bond is registered. The coupon is attached to those bonds which are negotiable and where title passes by delivery, thus providing an easy means of paying the holder, whoever he may be.

Bonds and mortgages are sometimes included under the head of securities. Since, however, they constitute a rather special form of investment, it seems preferable that they should be kept in a separate account. The instrument consists of two parts: the bond, which is the promise to pay, and the mortgage, which is the security for the loan. It is the mortgage on which suit is brought in foreclosure proceedings in order to obtain title to the property.

Depositors' open accounts represent liabilities to depositors for sums deposited and which may be withdrawn by check at any time without previous notice to the bank. It is on account of this latter contingency that banks are required to carry "reserves." It is especially important for banks in large cities where the accounts are likely to be large and active. All clearing house banks in New York City, for example, are required to carry a cash balance on hand equal to twenty-five per cent. of their deposits.

Time and demand certificates of deposit are written evidence, in a special form, of deposits made under special arrangement, namely, in that they are not subject to check.

Interest is sometimes paid on such deposits; a higher rate naturally on time than on demand certificates. This form of deposit is often convenient and useful in the case of trust funds. Certificates of deposit are usually issued from stub books or from pads. In the former case the stub shows the details; in the latter, a register in conjunction with the pad is necessary.

Certified checks are entered in a certification book, charged against the depositor's account as soon as certified, and become an assumed liability on the part of the bank. The bank's certification is endorsed across the face of the check, frequently in red ink, in order to make it prominent. Certifications sometimes read "accepted" instead of "certified." This appears not to affect the situation in any way, being simply a practice which has sprung up as a result of individualism at some time or another.

Due to other banks denotes the reverse

of Due from other banks, and represents liabilities of the bank in question to other banks on account of cash items, etc. The accounts sometimes are separately controlled and carried in a separate subsidiary ledger, but are quite likely to be found in the "bank ledger" previously mentioned.

Coupon deposits represent a special deposit account against which the bank will charge when paid the coupons of the company having made the deposit. The accounts with the individual depositors are kept in a "coupon deposits" ledger which is properly controlled.

Cashier's checks are checks issued by the cashier of the bank on the bank itself. It is an order on the paying teller, and constitutes a liability of the bank. It is the usual form employed by a bank for the payment of expenses and making of disbursements, other than salaries, chargeable against the bank. An unpaid cashier's check ranks as a liability with deposits subject to check. The same kind of record is employed as for certificates of deposit.

Bills discounted are more apt to represent "rediscounts" than notes or bills of the bank actually discounted. When a bank desires to liquify some of its loans and discounts, or the rates of interest make it profitable to do so, it passes along to some other institution paper which it is carrying. This practice has grown rapidly since the introduction of the federal reserve system, one of the specific advantages of which is to promote the liquidity of certain paper through a rediscounting process. This account is subject to the same discussion as is "notes receivable discounted" in the case of a mercantile organization, as to whether an account showing a contingent liability should appear on the books. It is not probable that many bankers who do an active rediscount business and who find good bookkeeping an aid in transacting business would like to be deprived of this very useful account.

(To be continued)

Note: A very interesting exposition of the organization and operation of banks together with the functions of departments and duties of employes will be found in a book in our library, by Professor Ralph Scott Harris, entitled "Practical Banking."

Announcement is made of the admission to the New York firm, under date of December 1, 1918, of Mr. W. H. Bell, Mr. C. E. Scoville, and Mr. J. R. Wildman. At the same time Mr. E. C. Gause became a member of the Pennsylvania firm.

We are pleased to announce the return to our organization, on December 1, 1918, of Mr. A. R. Porterfield, recently auditor of The American International Corporation. Mr. Porterfield has been appointed Associate Manager of the New York office, working in conjunction with Mr. Willins, Manager.

Word has been received of Mr. Ludlam's safe arrival overseas. Mr. Ludlam sailed from New York on the S. S. Melita on Saturday, November 23, 1918. He was accompanied by Major F. M. Brown, Capt. H. W. Warner, and Lieuts. J. D. Hartman and Davis.

The remainder of Mr. Ludlam's unit, which sailed on the S. S. Martha Washington, Tuesday, November 26, was comprised of the following persons: Major K. Ward-Smith, Capts. J. S. Braun and R. C. Brown; Lieuts. W. P. Elliot, J. R. Hutson, Ira Harris, Jr., R. J. Hyland, F. V. Moore, and Alexander Russell; Privates Bernard French, R. T. Taylor, L. L. Tompkins, C. W. Wannenwetsch, and other privates sent by the Government.

Private A. J. Farber is expected to join them in France.

Depreciation Problem

The New Jersey Trading Company purchased on January 1, 1914, a second-hand charged against operations for the year 1917 would depend upon the composition by years of the reserve in the amount of $19,000.00. If by any chance the amount added to the reserve in 1917 were $7,500.00, then no part of the $31,000.00 should be charged against the operations of that year. The whole amount rather should be charged to surplus.

There is nothing further to be done with the problem except to set up the additional cost of putting the vessel in condition after the survey. Charging the amount involved —$70,000.00—to the cost in the property account would give the ship a value, based on cost, of $80,000.00, which cost, less any residual value which the vessel might have at the end of five years, should be spread over the five-year period, beginning January 1, 1918.

Trust Company Auditing (Continued)

THERE is probably no class of work on which the accountant requires more poise and sagacity than the audit of a trust company or of a bank. On such engagements he is brought into contact with men who are smart, shrewd, critical and exacting in their estimate of what constitutes efficiency on the part of the auditor. To meet this test he must not only understand thoroughly the work on which he is engaged but be able to handle tactfully any situation which may arise during the progress of the work.

A definite program of work with the assignment of the men to the respective parts thereof, thoughtfully evolved in advance, conduces greatly to the conduct of the audit. The program may need to be changed when the work is begun, and the men may have to be shifted. This is apt to be true on a new engagement. The major portion of a well arranged plan will, however, remain unchanged. The result will be much superior to that attained where the planning is left to the resourcefulness of the man in charge when the force arrives on the scene of the engagement.

The location of the cash, securities, and the loans with their supporting collateral should be ascertained in advance. The physical surroundings should be taken into consideration. The men to have charge of counting the cash in the cages, the cash in the vault, the securities owned, and the securities supporting loans, respectively, should be selected and their assistants assigned before proceeding to the trust company. Each assistant should know distinctly to whom he is assigned and what he is to do.

The work is started, as a rule, on Friday at the close of business. This is obviously because there is more opportunity for work on the cash and securities without interruption between Friday afternoon and Monday morning than at any other time during the week. Where the trust company has branches work should be started at the main office and branches simultaneously. If a large number of men are required for the main office, arrangements should be made so that they will arrive there at such times and in such numbers as they can be started on the work advantageously. They should not arrive all at one time and thus give the appearance of besieging the place.

Upon entering the cages of the paying and receiving tellers, the count should be taken up immediately. No person should be permitted to leave the cages while the count is in progress. The counting of the cash in the vault should also be taken up immediately.

The securities should be put under control by sealing all boxes or safes in which they are located. Tape bearing the firm name and tin seals consecutively numbered are used for the boxes. A heavier metal seal, so arranged as to go over the combination knob and be locked on, is used for the safes.

The records of the work in connection with the counting of the cash and securities are of great importance and require great care. Much time may be saved, where the engagement is large, by having made a rubber stamp, showing the name and address of the company under examination and having stamped in advance a number of sheets of journal and analysis paper. The journal paper is best adapted to the recording of the cash count. The analysis paper serves best for securities.

A separate sheet of journal paper should be used for each teller or person having the custody of cash; likewise the cash in the vault. Each sheet should be headed with the name and address of the company, the date and character of the examination, the hour of beginning the count, and the name of the custodian whose cash count record it shows. Each sheet should bear the name of the accountant who makes the count.

Bills, gold and silver, respectively, should be listed separately, and in each case the denominations and corresponding number of pieces, together with the amount resulting, should be shown.

The totals of sheets representing the paying teller's cash should be compared with the paying teller's proof. If in agreement it should be so marked. If not in agreement the amount of the difference should be shown. The same operation should be repeated with respect to the receiving teller, the rack department and the transit department. The sheets should be marked for reference to a summary sheet.

The totals as above should be transferred to a summary sheet. The total on the summary sheet should be compared with the balance of the general ledger cash account. If in agreement it should be so marked. If not in agreement both figures should be shown and the amount of the difference stated.

The items on the summary sheet should be conspicuously marked so that the relation of the supporting papers will be apparent. Blue pencil is suitable for this purpose. The summary sheet should finally be placed on top of the detail sheets and all fastened with a pin. Clips are not desirable.

With regard to the counting of cash, it is safe to lay down the rule that everything should be counted. Circumstances may cause an exception to the rule. Where there are large numbers of small bills, the conditions may indicate that it is unnecessary to count them all. Exceptions of this kind should only be made at the direction or sanction of the accountant in charge. Discretionary power of this kind should be vested only in the man who is responsible for the engagement and who is presumed to possess the requisite judgment to decide questions of this character.

The count of the securities owned should be recorded on analysis paper. The paper should be headed up so as to show at the top the name and address of the company, the date and character of the examination, and the name of the person making the count. The columns extending from left to right, and using as many as necessary for the respective classes of information, should show in the order named the number of shares of stock or par value of bonds, the complete and accurate description of the securities, the book figure, a notation that each item of the securities was examined, or if out on deposit as security, a memorandum as to the location.

The securities consist principally of stocks and bonds. Occasionally there will be miscellaneous instruments, such as syndicate subscriptions, certificates of indebtedness, etc. These need only to be read casually to determine their status.

Stocks, it should be remembered, may be preferred, common, cumulative preferred, guaranteed, and what not, so that when they are being examined for other details, such as the name of the company, number of shares, signatures, etc., the variation in description should not be overlooked. Great care should be observed in recording all the particulars with regard to each item examined and in comparing the particulars with the list where the latter has been prepared by the company's employes.

If stocks exist in large numbers, they will be found flat, done up in packages. Under such circumstances, the tape with which the package is fastened should be removed and the certificates counted after the manner of bills. A rubber finger cot or piece of wide rubber band over the forefinger facilitates the operation. Where the variety of stocks is great, the certificates will likely be folded. Even though described and endorsed on the outside, they should be unfolded for examination.

Bonds will be either in registered or coupon form. Registered bonds resemble stocks. They may be folded or flat, as in the case of stocks. The procedure with regard to handling them is the same as with stocks. Coupon bonds differ in form only in that they have the coupon sheets affixed to the instrument at the top by means of tape. Their appearance is consequently much changed. They require different handling from that of stock certificates or registered bonds. The procedure is to twist them with the left hand so that they resemble a fan. They are then easily counted on the tape end, three or five at a time.

Bonds require more careful attention in examining and recording or in comparing them with a prepared list than stocks. There are greater refinements with regard to their provisions. Points which may appear to be of minor importance may have a decided effect on the market value. Consequently, extreme precision should be observed in examining and recording bonds, to the end that the description is absolutely accurate.

Among the points to be covered are the dates of maturity, the interest rate, the interest dates, and the last payment of interest, if there is any irregularity in this respect. Coupon bonds should be examined where practicable, to ascertain if the next interest coupon is intact. Where the bonds are too numerous the coupons should be tested in this respect occasionally.

Where the number of securities is sufficient to warrant it, a separate sheet or series of sheets should be used for bonds, stocks, and miscellaneous securities, respectively. The book value column on each sheet should be footed and carried forward. The totals of each section should be carried to a summary sheet. The total of the summary sheet should be checked to the controlling account in the general ledger, namely, "Securities Owned." The summary sheet should be placed on top of the detail sheets and all fastened securely with a pin.

(To be continued.)

Additions to the Library, December, 1918

Brooks, Howard K. Brooks' foreign exchange text book; an elementary treatise on foreign exchange and the monetary systems of the world; for the instruction and use of the banker, exporter, importer, tourist, and particularly for the scholar and student. Edition 2, revised. Chicago, Ill., H. K. Brooks, 1908. 239 p.

Chamber of Commerce of the United States. Trade acceptances; supporting and opposing arguments. Washington, Chamber of Commerce, 1918. 24 p.

Guaranty Trust Company of New York. Acceptances in retail business; address by W. G. Avery, before the New York State Society of Certified Public Accountants, New York, December 9, 1918. 3 p.

—— The coming industrial expansion of the world; some economic factors that will play a dominant part. New York, Guaranty Trust Company, November 18, 1918. 4 p.

—— How to figure interest returns on securities. New York, Guaranty Trust Company, 1918. 14 p.

Hubbell, Charles H. Bulletin regarding U. S. Treasury certificates of indebtedness. Cleveland, Ohio, First National Bank, December 14, 1918.

1914 C. P. A. problems and solutions; presenting problems, with solutions, for the following examinations: Missouri, December, 1913; Ohio, November, 1913; New York, June, 1914; Massachusetts, October, 1914. 2 v. New York, Ronald Press Company, 1915.

Stockwell, Herbert G. Net worth and the balance sheet. New York, Ronald Press Company, 1912. 206 p.

United States. Department of Agriculture. Highway cost keeping, by James J. Tobin and A. R. Losh, reviewed by Halbert P. Gillette. Washington, Government Printing Office, 1918. 52 p. (Bulletin No. 660.)

United States. Treasury Department. Travel regulations. Washington, Government Printing Office, 1918. 5 p.

The minimum width of the sheet or form when using the full capacity of the machine is 11-9/32 inches.

There are three types of this kind of tabulating machine: the Hollerith, Powers, and Pierce, of which the Hollerith and Powers are the best known. The main difference between the Hollerith and Powers is that the Powers tabulator prints items and totals and the Hollerith does not. The latter operates considerably faster, however. With the Powers tabulator one can insert ruled forms and print items and totals in their respective columns, printing one or several items simultaneously.

The manufacturers support service departments for the purpose of aiding in the planning of the system and the designing of the cards.

The cards can be bought only from the manufacturers of the machines and the machines can be rented only on a monthly basis, excepting the Hollerith Key Punching machines, which are sold outright for $75.00 each. It would appear that inasmuch as the machines are rented on a monthly basis, the manufacturers would assure themselves of the success of an installation before renting the machine and avoid the loss to them incurred on a one month's rental.

The members of the staff who have need for a thorough study of the subject will find trade literature, detailed descriptive matter, and forms on file in the Department for Professional Training.

New Orleans Office

The firm announces the opening, under date of February 1, 1919, of an office in the Maison Blanche Building, New Orleans, Louisiana. Mr. Henry Jumonville has been appointed manager.

Trust Company Auditing (Continued)

Bonds and mortgages, as investments, are frequently found in trust companies, especially where the trust and banking functions are combined with that of selling guaranteed mortgages.

A bond and mortgage does not differ in principle from the registered and the coupon bonds previously discussed. In each instance the bond is the promise to pay. Each is likewise secured by a mortgage.

The registered and coupon bonds are issued in series and in various denominations in order to facilitate the distribution, sometimes of a large amount, among a large number of persons. Each person holding a bond has an equity in the mortgage which secures the whole issue. As a matter of convenience the mortgage is made in favor of a common trustee who represents the collective interests of the bondholders. The bonds exist as various separate physical instruments; the mortgage as one document.

The bond and mortgage, so called, is usually made in a relatively small amount. They are two distinct physical instruments, or forms. One is the bond; the other the mortgage. One recites the obligation to pay; the other secures the obligation.

The instruments are on paper usually 8½x14 inches and fold twice to the size of 8½x3½ inches. When so folded they present on one face the essentials of their content. One bears on the face the word "Bond" printed in large heavy letters. The other is similarly marked "Mortgage."

The bond should be examined and a record made on analysis paper of the date, name of the maker, amount, date of maturity, rate of interest, and the interest dates. The bond should also be scrutinized to see if any payments in reduction of the original principal have been noted.

Alarm need not be felt if in the case of bonds which have been in existence for some time the bond is made in twice the amount of the mortgage. The practice formerly was to regard the mortgage as the instrument of obligation as well as security. The bond was regarded as one of indemnity causing the maker to become liable for twice the principal sum in case of default on the mortgage. While this practice has been largely superseded there still remain in existence enough of the old form to disconcert now and then a person who is not familiar with the former practice.

Reverting to current practice, the mortgage instrument should be examined as to date, amount, signature, and witnesses. If not executed in favor of the party whose investments are under examination it should bear an assignment to such party. The mortgage should also be scrutinized to ascertain if it has been recorded; also that it is accompanied by insurance policy and last tax receipt.

The analysis sheets upon which the above records have been made should be totaled and the total agreed with the controlling account. Such fact should be noted alongside of the total.

The verification of loans and discounts must needs be taken up as early during the course of the audit and finished as soon as possible. This, obviously, is in order that the changes in their composition may be minimized during the process and that no more opportunity to handle them than is absolutely necessary be afforded to the employes of the company.

Discounts, meaning notes the interest on which has been collected by the company in advance, should be listed on analysis paper. The list should show the date, name of the maker, amount, due date, discount rate, and names of endorsers. The total of the amount column should be agreed with the controlling account, having in mind that rediscounts may have to be taken into consideration and that the method of handling rediscount varies in different companies.

Notes which are rediscounted are usually marked off the discount register. They will, of course, not appear in the count. On the general books they may be credited either to the account "Customers Loans," or the account "Rediscounts." The latter procedure is preferable since it shows the liability. When so handled, however, the rediscounts must be deducted from the asset account before attempting to agree the auditor's record of notes counted, with the control.

Demand loans and time loans being secured by collateral must be not only examined and listed, but the collateral securing the loans examined and confirmed. The list should show the date of the loan, name of the maker, amount, rate of interest, due date, amount of collateral. Confirmations are written in duplicate, sometimes by the employes of the company, sometimes by auditors. In either event the original goes to the borrower, who is the owner of the collateral. The duplicate remains in the possession of the auditors.

The collateral is checked against the duplicate of the confirmation. Each item on the page should be ticked, to indicate that the securities have been inspected and that all the information relating to the item as shown on the page is correct. Differences should be noted on the page. Two men working together, one calling, the other checking, usually work to best advantage. The names of both men should be noted on the page.

The original confirmations, after return by the borrower, should be checked against the duplicate. The securities should be priced with the aid of the Financial and Commercial Chronicle, the daily newspapers, or other media from which reliable quotations may be obtained. After extension and footing the market value of the collateral should be carried in total to the analysis sheet on which the auditors' record of the loans has been made and compared with the amount of the loan in order to ascertain whether or not a reasonable margin is being maintained.

The analysis sheets on which the loans

appear should be totaled and agree with the general ledger controlling account.

Incidentally it may be mentioned here, although somewhat irrelevant, that securities owned should be priced and extended in order that some judgment may be formed as to the value of the securities.

Amounts due to and from other banks and trust companies should be checked by balancing the bank ledgers and agreeing them with the respective controls. Whether or not these balances and as well the collection items are confirmed will depend on the thoroughness of the audit. Deposit accounts with other banks and trust companies should always be confirmed by independent certificate.

Depositors checking accounts are usually verified by taking a trial balance of the depositors ledger, sometimes called the "Boston" ledger, and proving it up with the general ledger. Arrangements are sometimes made so that the auditor makes a test of the individual balances by inspecting and comparing with the balance in the account before they are returned to depositors a goodly number of the pass-books which have been balanced.

Time and demand certificates of deposit are checked by taking off the amounts from the open stubs and proving them against the control. Cashiers checks are proved the same way; certified checks much the same except the open items are taken from the register. Coupon deposit accounts are usually kept in a subsidiary ledger. The liability on this account is proved by taking or checking a list of the balances and comparing the total with the general ledger account.

The examination of the trust department is a subject too voluminous for discussion in this article. The work is rather highly specialized and is frequently omitted. Whether or not omitted, the trust securities as well as those for which the department acts as custodian should be kept under control during the examination of the banking department.

Trust company audits, so called, are quite likely to be examinations, or, in other words, balance sheet audits. They usually arise at the instance of the auditing committee of the company. The report of the professional auditor is usually addressed to the committee and is brief. It is frequently incorporated in and made a part of the semi-annual report of condition which the company is obliged to make to the State Banking Department.

(Concluded.)

Additions to the Library, January, 1919

American Institute of Accountants. Board of Examiners. Rules and regulations of the Board of Examiners of the American Institute of Accountants, adopted August 14, 1917. 3p.

Draper Corporation. Textile texts for cotton manufacturers, including special articles on carding, spinning, spooling, warping, dyeing, reeling, twisting and weaving; also general history, mathematical tables, and a description of the patented cotton machinery introduced and sold by Draper Company. Hopedale, Massachusetts, Draper Corporation, 1917. 360p.

Engineering and Mining Journal, comp. Hand book of mining details; compiled from the Engineering and Mining Journal by the editorial staff. New York, McGraw-Hill Book Company, 1912. 372p.

Federal Reserve Bank of New York. (Form arranged by Federal Reserve Bank to be used by professional auditors and banking departments in making requests to Federal Reserve Bank for confirmations, certificates, and reconciliations.) New York, Federal Reserve Bank, n. d.

Finlay, James Ralph. The cost of mining; an exhibit of the results of important mines throughout the world. New York, McGraw-Hill Book Company (c 1910). 415p.

Jefferson, Howard McNayr. Accrued interest receivable and payable: an accurate daily statement. Edition 2. New York, Bankers Publishing Company, 1919.

Mida's Trademark Bureau. Foreign trademark registration; a chart showing at a glance vital points in good will protection throughout the world. Chicago, L. W. Mida, 1918.

New York (state). University. Higher education, certified public accountants, law, rules, and information. Albany, New York, University of the State of New York, June, 1918. 27p. (Handbook 14.)

United States National Bank, Denver, Colorado. How we handle Interest earned but not collected and Interest collected but not earned. Denver, Colorado, United States National Bank, 1918. 11p.

Index