CONTENTS

Prize Essay ..................................................... 321
   By S. Gundelfinger

Relation of the Accountancy Instructor to the Development of Professional Standards in the Practice of Accountancy ........................................ 349
   By Homer S. Pace

Editorials ....................................................... 357
   Elijah Watt Sells—His Interest in the Institute—New Legislation—
   Getting Together—Working Papers Must Be Produced—
   Right to Examine Corporation Books—Profession and Business—
   Cooperation with Legislators—We Advance

New York Legislation ........................................ 365

Income-tax Department ...................................... 373
   Edited by Stephen G. Rusk

Students’ Department ......................................... 384
   Edited by H. A. Finney

Current Literature ........................................... 395

Issued Monthly by

THE JOURNAL OF ACCOUNTANCY, INCORPORATED, Publishers

Publication Office, 10 Ferry Street, Concord, N. H.

Editorial and General Offices, 135 Cedar Street, Manhattan, New York, N. Y.

President, CARL H. NAU
3334 Prospect Ave.
Cleveland, Ohio

Treasurer, J. E. STERRETT
56 Pine Street
New York, N. Y.

Secretary, A. P. RICHARDSON
135 Cedar Street
New York, N. Y.

Application pending for transfer of entry as Second-Class Matter from the Post Office at New York, N. Y., to Concord, New Hampshire, Under the Act of March 3, 1879

Copyright 1924 by The Journal of Accountancy, Incorporated

THIS MAGAZINE DOES NOT EMPLOY SUBSCRIPTION CANVASSERS
Authors of Articles in this Issue of
The Journal of Accountancy

Homer S. Pace. Member American Institute of Accountants. Certified Public Accountant (New York). Member of firm, Pace & Pace, 30 Church Street, New York.


Subscribers should notify the publishers of The Journal of Accountancy at 10 Ferry Street, Concord, N. H., or 135 Cedar Street, New York, of change in address before the twentieth day of the month preceding the month of publication.

If the subscriber should fail to receive his copy within a reasonable time after the first day of the month of issue, the publishers should be notified promptly.

---


of The Journal of Accountancy, published monthly at New York, N. Y., for April 1, 1924.

State of New York ss.

Before me, a Commissioner of Deeds, in and for the state and county aforesaid, personally appeared Seymour N. Marsh, who having been duly sworn according to law, deposes and says that he is the Business Manager of the Journal of Accountancy and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 443, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

   Name of — Post office address —
   Publishers, The Journal of Accountancy, Incorporated 135 Cedar Street, New York, N. Y.
   Editor, A. P. Richardson 135 Cedar Street, New York, N. Y.
   Managing Editor, A. P. Richardson 135 Cedar Street, New York, N. Y.
   Business Manager, Seymour N. Marsh 135 Cedar Street, New York, N. Y.

2. That the owners are: (Give names and addresses of individual owners, or, if a corporation, give its name and the names and addresses of stockholders owning or holding 1 per cent. or more of the total amount of stock.) The Journal of Accountancy, Incorporated, 135 Cedar Street, New York, A. P. Richardson as Trustee for The American Institute of Accountants, 135 Cedar Street, New York.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent. or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.) None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is 135,000. (This information is required from daily publications only.)

Sworn to and subscribed before me this 1st day of April, 1924.

(Seal)

SEYMOUR N. MARSH, Business Manager.

SUSAN RANNEY, (My commission expires March 1, 1925.)
DOUBLY Endorsed

Not only has the Walton School of Commerce been endorsed by many Certified Public Accountants of national reputation, but its courses have been endorsed by adoption in a score of leading educational institutions, from the Massachusetts Institute of Technology in the East to the University of California in the West.

A Record that Justifies Endorsement

To date the Walton School has seen four hundred and three (403) of its students pass the C.P.A., C.A. and American Institute examinations, counting only once those students successful in both C.P.A. and American Institute examinations. From 1917 to 1923—seven consecutive years—Walton students were honored by mention of special distinction in American Institute examinations, while in the last eight years they have sixteen times won medals for honors in the semi-annual C.P.A. examinations.

Mail Coupon for Further Facts

Mailing the coupon will bring you a free copy of "The Walton Way to a Better Day," which tells of the accomplishments of Walton graduates as executives, comptrollers and auditors in industrial organizations, as well as members of public accounting firms. It also lists many of the Certified Public Accountants who have endorsed Walton training, and the numerous universities and colleges which have adopted Walton courses.

Day and Evening Classes and Correspondence Instruction

As day classes are started at frequent intervals it usually is possible for a day student to begin at almost any time at the point in the course for which his previous education and experience qualify him. Evening resident classes start in January and September.

Constructive Accounting — Advanced Accounting
Cost Accounting — Income Tax — Business Law

Check, sign and mail to Walton School of Commerce, Chicago

I am interested in □ correspondence instruction □ resident instruction.

Name...........................................................................................................
Address................................................................................................. J. OF A. 5-24
AFTER you have audited his books, his perplexity and uncertainty are gone. He knows just where he stands.

But between your periodical visits, his books get out of balance, his figures become more and more unreliable. The inaccuracies of his accounting department keep him worried and fretful.

He would probably welcome your suggestions to improve and simplify his accounting system.

Many accountants have earned the gratitude of their clients by recommending Elliott-Fisher. Moreover, with the advent of Elliott-Fisher, the work of the accountant becomes much easier.

Elliott-Fisher keeps the important business facts on tap. It gets statements out on time. It lessens payroll expense. It posts perfectly and legibly and makes auditing easy. All entries and postings are up to the minute. Mistakes are few and easily checked.

Many of our most important installations of recent years have been made because of the recommendations of consulting accountants to their clients. Do you know that we have a trained staff of practical accountants to cooperate with you? Drop us a card. One will call at your office. He will tell you how we have helped accountants solve the bookkeeping problems of more than four hundred different lines of business. This will obligate you in no way.

ELLIOTT-FISHER CO., Canadian Pacific Bldg., 342 Madison Ave., New York, N.Y.

Branch Offices in Every Important City in the United States and Canada

Elliott-Fisher Ribbons and Carbon Paper Give Best Results

Elliott-Fisher Accounting and Writing Machines: Flat Writing Surface

When writing to advertisers kindly mention The Journal of Accountancy
Accountants’ Handbook

Since its publication last November, more than 25,000 copies of this Handbook have been purchased. It is easily the most important work in many years to those concerned with accounting. Accountants, corporation officials, and managers everywhere are finding it as necessary to the modern office as any piece of labor-saving equipment.

Assembles Basic Data on All Subjects Accountants Meet in Their Daily Work

The profession has long needed a work of this character. It contains 1075 pages, divided into thirty-three sections, each devoted to a subject of essential interest in accounting practice. It covers adequately, not only accounting in its principles and applications, but also finance, management, law, banking, office methods, and allied activities as the accountant must know them.

Contains Working Data to Which You Will Continually Refer

For all who deal with accounts, this Handbook brings together reliable information on just the things that are likely to come up in connection with accounting work. The compilers have worked through all authorities in the field, selected the best data to be found, and prepared a truly remarkable collection of tested principles and procedure. Practical charts and forms, tables, rules and definitions abound. All material is exhaustively indexed.

Designed to Stand Hard Usage

The Accountants’ Handbook is printed in clear type on thin, strong paper and made up in durable, flexible binding with patented unbreakable back. Pages girt edged and of size, $11^1/2 	imes 71/4$, that makes volume most convenient to handle and carry about. This is a field book which supplements admirably the other works in your library. 1923 (10th printing, 1924). 1075 pages. $7.50.

Send for This Handbook on Approval

No accounting office or department is complete without this reference manual. Fill out and mail the order form at the right and we will mail you a copy postpaid on approval. Test it out in your work for five days. Then, within that time of its receipt, send us $7.50 in full payment or return the book. Mail the order form today to

The Ronald Press Company
Publishers
20 Vesey St., New York, N. Y.

What Users Say of It

“We think so well of it that we have purchased more than 250 copies for the use of our organization.” — Lybrand, Ross Bros. & Montgomery, New York and other cities.

“A splendid book containing a wonderful amount of information well arranged for ready reference. It is to the accountant what Kent is to the engineer.” — Frank N. Poole, Comptroller, Franklin Railway Supply Co., New York.

“We recently purchased a copy but find it so valuable that one is not sufficient for our needs. I do not see how any accountant or office force can get along without this book.” — C. P. Hoffman, Auditor, Packard Motor Car Co., of N. Y., New York.

The Thirty-three Sections

Business Law
Mathematics (with Tables)
Corporation Organization
Corporations
Net Income and Surplus
Financial Statements
Inventories
Classification
Reports
Banking and Bank Credit
Depreciation
Cost Accounting
Audits and Working Papers
Good-Will
Finance
Valuation
Statistics and Graphs
Installations
Fiduciaries
Consolidations
Bankruptcy, Insolvency, and Receivership
Office Appliances
Public Utilities
Economics
Management
Professional
Credits and Collections
Municipalities
Foreign Exchange
Accounting Principles
Taxation
Office Practice
Glossary

Use This Order Form

THE RONALD PRESS COMPANY
20 Vesey Street, New York, N. Y.

Send me postpaid a copy of the Accountants’ Handbook.
Within five days after its receipt, I will send you $7.50 in full payment, or return the book to you.

Name: ____________________________
(Please Print)
Business Address
Firm
Position: ____________________________
Signature: ____________________________

(779)

When writing to advertisers kindly mention The Journal of Accountancy
For General and Cost Accounting

The Remington Twin-Cylinder Accounting Machine

offers some exceptional time and cost saving advantages

The above illustration shows this machine equipped for combined Accounts Payable Ledger and Departmental Purchase Journal work. This is an important field of work where cost may be reduced and accuracy increased. The credit is posted to the ledger or voucher and charged to proper department or expense account—ALL IN ONE OPERATION.

This method keeps every account perpetually posted and balanced, thus eliminating all necessity for a voucher record or register. No end of the month peak load. It also eliminates complex analyses of accounting records, for all necessary detail is written with each entry on every account.

The Remington Accounting Machine combines all of the features essential to successful mechanical bookkeeping. Its complete adaptability fits it for each and every individual requirement. A demonstration on your own work is yours for the asking. No obligation involved.

REMINGTON TYPEWRITER COMPANY
Accounting Machine Department
374 Broadway, New York   Branches Everywhere

When writing to advertisers kindly mention The Journal of Accountancy
For National ledgers and ring books—fillers of Hammermill paper

Every business man who works with paper knows Hammermill.

Quality, wide utility—and advertising—have made it the accepted standard among papers used for written records.

National Loose Leaf Ledger Sheets and Columnar Forms are now available in the famous Hammermill Ledger paper.

National Bound Columnar Books may now be had in Hammermill Ledger.

National Ring Book filler sheets are now made of the widely known Hammermill Bond.

When you need a good ledger that you will be proud of—a really serviceable ring book for the records you keep on your desk, in pocket or brief case—or conveniently planned columnar forms that save much time and labor in record-keeping and auditing or analyzing accounts—ask your stationer for "Nationals."

If it's a National, the binder will be good-looking, strongly made, and built for long service. The rings or locking device will be quick-acting and trouble-proof. And you can get National filler sheets made of Hammermill.

If your stationer has not yet stocked fillers of Hammermill for these National books, he can get them for you easily and quickly.

NATIONAL BLANK BOOK CO., 107 Riverside, Holyoke, Mass.
New York, 52 Duane St.
Boston, 161 Devonshire St.

Chicago, 618 W. Jackson Blvd.
Philadelphia, 1001 Market St.

National Blank Book Company
LOOSE LEAF AND BOUND BOOKS

© 1924, Natl. Blank Book Co.
INTRODUCTION TO ACTUARIAL SCIENCE

By H. A. Finney

Published under the Endowment Fund of the American Institute of Accountants

A WORK that every accountant and student of accountancy should possess and study.

BECAUSE of the desire of many accountants and students for information on this subject, Mr. Finney, editor of the Students' Department of The Journal of Accountancy, has written this book consisting of 101 pages, 5 x 7 inches, printed in large type and bound in cloth.

THE TEXT of "Introduction to Actuarial Science" consists of articles which appeared in The Journal of Accountancy and solutions of all problems in actuarial science contained in the examinations of the American Institute of Accountants up to and including May, 1920.

INTEREST, single investments, annuities, leasehold premiums, bonds and depreciation are discussed in a clear and concise manner.

THIS WORK should appeal not only to the accountant but to many business men.

Price $1.50 delivered in the United States of America

AMERICAN INSTITUTE OF ACCOUNTANTS

135 Cedar Street New York
Audit Program and Specimen Audit

D. CARROLL ELLMORE, A.B., M.C.S., C.P.A.

For ACCOUNTANTS EXECUTIVES

For OFFICE MANAGERS BOOK-KEEPERS

A progressive, concise and complete Audit Program with Specimen Audit of a Manufacturing and Trading concern, showing step by step, what to do when making an audit, and exactly how to do it. Each subject is treated in proper order and every principle dwelt upon is immediately followed by an illustration of its Exhibit or Schedule. All figures are inserted, making it easy to understand, items readily traceable and the whole work simple to follow through to final completion.

It is highly educational, presenting theory plus practice and is an excellent Self-teacher. Shows approved methods of presenting figures. Not a lot of text matter to wade through.

You should have a copy of this work, it will help you.

Size 9" x 13" Price $5.00

POST-GRADUATE COURSE

20% Discount on all April Enrollments

OUR post-graduate coaching course has been designed to prepare candidates by quick intensive training for the Examination. Now is an opportune time for those who wish to take the Institute Examination, and who feel the need of this work. This course takes up practically all the points that may come up on the Examination and shows the candidate how to get his answer on paper, how to cover the important points, within the time limit; it also helps him to interpret the problems correctly, a point on which so many good accountants are weak.

C. P. A. Course

For those not ready for the next Institute Examination, our C. P. A. Course is recommended. No knowledge of bookkeeping is necessary, but a high school education, or at least a complete grammar school education, with business experience, is essential. We start a man at the beginning and carry him step by step through to his goal.

These courses, as well as the C. P. A. Courses and the Post Graduate Course, are practically the same as those conducted so successfully for 5 years by R. J. Bennett, C. P. A., in evening resident school. His C. P. A. Course was at that time accredited by the State Board of Pennsylvania. Write for catalog.

Elective Course: Accountancy, Auditing, Law, Costs, Bookkeeping, Junior and Senior Accountancy

Our Courses are Adapted to Resident School Use

BENNETT ACCOUNTANCY INSTITUTE

Dept. 331 S. E. Corner Broad and Spring Garden Streets Philadelphia, Pa.

When writing to advertisers kindly mention The Journal of Accountancy
C. P. A. ACCOUNTING
by
George Hillis Newlove, Ph.D., C.P.A.

Digests all the theory and auditing questions given in 335 C. P. A. examinations by accounting boards in 44 states. Lectures indirectly answering the 2,553 questions are substantiated by 7,579 specific page references to 112 accounting books. Classifies 264 C. P. A. problems giving complete solutions and time allowances for each. Invaluable to C. P. A. candidates, "C. P. A. Accounting" enables practising public accountants to settle accounting disputes by quoting the opinions of the accounting authorities.

Three Volumes, 1,014 pages, 5½ x 8½
$15.00, postpaid.

FACTORY OVERHEAD
by
Frank E. Wehner, M.C.S., C.P.A.

Embodying the author's 30 years experience as a cost accountant, "Factory Overhead" offers the only full and complete detailed treatment of the entire procedure necessary to install and maintain control of manufacturing burden. The divisions are: I-Collocation, II-Overhead Analysis, III-Plant Investment and Interest, IV-Maintenance and Depreciation, V-Departmental Allocation of Overhead, VI-Diffusion of Overhead.

456 pages, 5½ x 8½, $5.00, postpaid.

COST ACCOUNTS
by
George Hillis Newlove, Ph.D., C.P.A.

A cost primer emphasizing the fundamental controls upon which all cost accounting is founded. Stresses the "how" of cost technique. Lectures outline the interrelation of the actual accounts and records under special order, process and estimating cost systems. The figures on the models forms articulate. Problems, which minimize the non-cost transactions, completely cover the factory accounts and records. Appendix C gives keys to the solutions to the problems.

183 pages, 5½ x 8½, $2.50, postpaid.

FREE EXAMINATION
Orders of $4.00 or more sent on 5-day approval. Money must accompany orders for less than $4.00, but money will be refunded if material is returned within 5 days.

The White Press Company
Incorporated
Departmental Bank Bldg.
WASHINGTON, D. C.

DUTIES OF THE JUNIOR ACCOUNTANT
By W. B. Reynolds and F. W. Thornton
7 x 5 inches; 107 pages

Published Under the Endowment Fund
Of The American Institute of Accountants

This work tells what is expected of the beginner and of the more experienced junior accountant. It is an aid to learning what to do and how to do it.

A fund of advice and suggestion is afforded the reader on:

Keeping auditor's records.
Beginning work on assignments.
Verification of bank balances, cash on hand, etc.
Checking footings.
Vouching entries.
Checking accounts carried in foreign currency.
Verification of securities.
Taking trial balances.
Vouching capital assets and additions thereto.
Liabilities not taken up.
Exhibits.
Conduct in clients' offices.
Utilizing waiting time.
Care of papers.
Care of clients' books and records.
Matter to be included in reports.

First published in book form in February, 1918, this book's popularity has been consistently maintained. It is now in the fourth printing.

Price, in Cloth Board Binding, $1.00

THE AMERICAN INSTITUTE OF ACCOUNTANTS
185 Cedar Street New York
THE BALANCE-SHEET

The Most Important Financial Document with which Every Accountant and Businessman has to deal

THE BALANCE-SHEET
Its Importance, Content and Preparation

By CHAS. B. COUCHMAN

The author of this book, Mr. Charles B. Couchman, Member American Institute of Accountants, Certified Public Accountant (Missouri), Member of the firm of Crockett, Couchman and Crawford, prepared the original manuscript of this book to supply the various branches of his own accounting organization with uniform arrangements and classifications for balance-sheets of clients.

The value to his own organization was so pronounced that arrangements were made whereby the manuscript could be published in book form for the benefit of all interested in Balance-Sheets. It is a hand-book of constant reference for all members of Public Accounting staffs, for students of business, for business men, credit men, attorneys, bankers, tax men, investors, and all who are concerned in the preparation of Balance-Sheets, or for whom Balance-Sheets are prepared.

It is also valuable to those who have money invested in securities, and who desire to know more regarding the real condition of the business in which they are interested.

The Purpose of the Book

No attempt is made in this book to cover the whole realm of Accountancy. It deals with one subject only, the Balance-Sheet. It discusses various classes of Balance-Sheets, explains separately every account displayed in same, giving definition, rules for valuation, and a discussion of what should and should not be included in each account.

It is an every-day, invaluable "tool" for every Accountant, and should be in the Library of everyone identified with the profession of Accountancy.

The book contains about 300 pages, has a number of illustrative tables, is printed in a high-class manner, and finely bound in dark blue Buckram, stamped in gold.

Ready for Delivery about December 15th.

The price is $3.00. Published by the Journal of Accountancy, Inc., 135 Cedar St., New York, N. Y.

The Journal of Accountancy, Incorporated
135 Cedar Street

New York
THE ACCOUNTANTS’ INDEX

PART OF SPECIMEN PAGE (Page size 6” x 9”)

COST AND FACTORY ACCOUNTING—(Cont.)


DICKER, LAWRENCE ROBERT. Cost accounts. (In his Advanced accounting. 1916. p. 235-72.)


DICKER, LAWRENCE ROBERT and H. E. BLAIN. Cost accounts. (In their Office organization and management. 1917. p. 153-61.)


DIEMER, Hugo. Determination of costs. (In his Industrial organization and management. 1917, p. 112-64.)

DIEMER, Hugo. Factory accounts, cost department. (In his Factory organisation and administration. 1914. p. 51-7, 269-91.)


It simply and clearly points to the sources from which information on any accounting or related subject may be obtained. To obtain the information it is necessary to know where to look for it. The Accountants’ Index is the Key.

PART OF SPECIMEN PAGE (Page size 6” x 9”)

VALUATION—(Cont.)

from the annual report, June 23-28, 1920.


PAYNE, ALEXANDER W. Principles upon which the assets of a joint stock company should be valued for balance sheets. Accountant, Feb. 13, 1902, p. 141-2.


THOMAS, John J. Depreciation and valuation.

PRICE $15.00

THE AMERICAN INSTITUTE OF ACCOUNTANTS, 135 Cedar Street, New York

Enclosed please find Cheque or Money Order for ................. Dollars, Mail to the following address:

Name ..............................................................

Address ............................................................

City ..............................................................
**Engineering Appraisal Valuations**

(a) Retrospective appraisals covering past costs for Invested Capital and Depreciation purposes.
(b) Current valuation reports for Insurance.
(c) Departmental appraisals for Cost Systems.
(d) Past costs appraisals for accountancy purposes.
(e) Appraisals for Bond Issues, Credit, Financial, Liquidations and Mergers.
(f) We do no accounting or auditing work. We maintain a bureau for confidential discussion with accountants on valuation problems. Correspondence invited.

**The Lloyd-Thomas Co.**

**RECOGNIZED AUTHORITIES ON PHYSICAL VALUES**

120 Broadway, New York
Rector 2171

1124 Wilson Ave., Chicago
Edgewater 8100

WASHINGTON, D. C. CLEVELAND DETROIT ST. LOUIS
PITTSBURGH CINCINNATI INDIANAPOLIS KANSAS CITY
MEMPHIS MINNEAPOLIS MILWAUKEE DENVER

---

**Higher Cost Accounting**

**SELF-INSTRUCTION COURSE**

Devised and planned by
**J. LEE NICHOLSON, C. P. A.**
Author and writer on Cost Accounting Subjects

**Sold practically at cost**

**J. LEE NICHOLSON**
219 West 7th St.
Los Angeles, California

---

**If You Are an Accountant**
Principal, Senior, Junior, Chief Bookkeeper

**AN ENTIRELY NEW AND AUTHENTIC**

**Accounting Encyclopedia**
AND

**Reference Library**

Is Now Ready after Twelve (12) Years of Preparation
Written by One of New York's Foremost Accountants

**THEODORE KOEHLER, C.P.A. (N.Y.)**
For 25 Years Conductor of the New York School of Accounts

**Theory, Auditing, Practical, Commercial Law**
**SUPPLEMENTED BY ENCYCLOPEDIC INDEX (325 pp.)**

Puts into a Ready Reference Accountancy Handbook
Thirty Years' Constructive Field Practice
25 Years' Experience Preparing Men for C. P. A. Degree

**VALUED FOR ITS EVERYDAY UTILITY BY**

PRINCIPALS: For expert consultation and collaboration
SENIORS: For constructive aid in staff management and direction
JUNIORS: For study and general service purposes

Work replete with Accounting Expositions and matters of import to all Accountants. Satisfy yourself of its great merits

Send for the Encyclopedic Index, free on five days' approval. Descriptive Literature on Application

**THE TRI-SERVICE ACCOUNTING CORPORATION**
Publishers
1133 Broadway [Dept. 18] New York

---

When writing to advertisers kindly mention The Journal of Accountancy
AUDIT WORKING PAPERS

Their Preparation and Content

By

J. Hugh Jackson, M.B.A., C.P.A.

Member of the American Institute of Accountants, Professor of Accounting, Graduate School of Business Administration, Harvard University

In this book the content, preparation, indexing and final filing of working schedules have been comprehensively discussed. The text is not encumbered with accounting theory—the problems arising in each day’s work have been covered in a practical and helpful manner. It is the sort of guide to which every public accountant may continually refer his assistants; a valuable source of reference for every auditor. It is truly a desk partner which will provide the accountant instantly with the best auditing procedure of the day. No accounting office should be without it; every assistant should possess it.

Pages ix, 201, and 99 forms (77 with illustrative figures shown) reproduced to illustrate actual audit procedure.

Cloth Bound .................. $5.00
Flexible Leather ................ 7.50

AMERICAN INSTITUTE OF ACCOUNTANTS FOUNDATION
135 CEDAR STREET, NEW YORK

When writing to advertisers kindly mention The Journal of Accountancy
Prize Essay

THE PRINCIPLES WHICH SHOULD GOVERN THE DETERMINATION OF CAPITAL AND THE AMOUNTS AVAILABLE FOR DISTRIBUTION OF DIVIDENDS IN THE CASE OF CORPORATIONS, WITH SPECIAL REFERENCE TO THE SYSTEM OF CAPITAL STOCKS WITHOUT A PAR VALUE

By S. Gundelfinger

INTRODUCTION

In March, 1923, the American Institute of Accountants Foundation announced a prize competition for papers to be submitted on the subject which forms the title of this thesis.

Past and present practice in the determination of capital and of the amount available for distribution of dividends reveals a multiformity of treatment which points clearly to the existence of uncertainty, confusion and—in not a few instances—fraudulent intent.

A call for the enunciation of the principles which should govern the treatment of these vexing questions should be of more than academic interest. The values to be ascertained by the faithful application of such principles to the affairs of corporate enterprise constitute factors of the most vital importance in the economy of an age in which by far the greatest portion of industrial wealth is concentrated in and administered by corporations. Although endowed by the law with a personality and with proprietary and other capacities and attributes separate and distinct from those of their members, these corporations nevertheless act vicariously in the last analysis and thus make dispositions affecting directly
stockholders and creditors and, indirectly, a potentially unlimited field of interests.

When to these considerations is added due recognition of the widespread distribution and ease of transfer of corporate securities of every description, the need becomes apparent of a reliable guide in the determination of capital and of the amounts available for distribution of dividends.

It is hoped that the principles herein developed will be found to constitute such a guide at least in a generality of situations. They are based upon fundamental considerations and elaborated, the author is fond to believe, with reasonable consistency.

This ideal of consistency he has striven to pursue with especial rigor in the treatment of the problem as affecting capital stocks without a par value and submits his conclusions to the scrutiny and candid criticism of the reader. The inclusion, by special reference, of this relatively novel system of capital stocks, which still seems to be shrouded in mystery, should dispel much of the occultism now surrounding it and permit it to emerge into the light of day.

CHAPTER I
THE PROBLEM STATED

At the outset of an inquiry of the nature of the present one it is well to state, as precisely as may be, the scope of the investigation. Such a statement has the twofold advantage of tracing the limits within which the inquiry is confined, and of excluding therefrom that with which it is not proposed to deal. But while it is useful thus to discriminate at the very inception, the choice must not be dictated by predilection and prejudice, but by an earnest endeavor to determine what is and what is not consistent with the subject of the inquiry considered as a whole.

We are here concerned with the enunciation of the principles which should be applied in the determination of two things: capital, and the amounts available for distribution of dividends, in the case of corporations.

While the term dividends is well and generally understood, the use of the term capital is attended with considerable looseness and vagueness. The economist, the lawyer, the financier, the accountant—each has a number of varying definitions of the term and some employ it interchangeably with varying and by
Prize Essay

no means sharply circumscribed significations. It is not surprising, however, that among the many conflicting definitions of capital there are some which answer the requirements of more than one department of knowledge, and so it has happened that the common characteristics of otherwise conflicting concepts have pointed the way to a better and clearer understanding of the nature of capital.

The statement may be accepted as self-evident that, before dividends can be paid, there must be available for that purpose an amount or amounts from which it is both possible and lawful to pay them. Now, the power of declaring dividends is not an absolute power. Its legitimate exercise is predicated upon the preservation of assets equivalent to the aggregate amount of all liabilities and of the fixed amount of the capital stock. Viewed from the legal side alone, there is always a limit in excess of which dividends may not be paid, and that limit is determined by a process of subtracting certain known values from other known values.

Now, the classes of value which play the roles of minuends and subtrahends in that process have this single characteristic in common: that their determination and orderly statement constitute the peculiar province of accounting. It is in the field of accounting, therefore, that we shall seek for that meaning of the term capital which is appropriate to our inquiry.

It will be our first task to develop the principles applicable to the determination of capital. Having decided upon the accountant's use of this term as most befitting our subject, we shall necessarily have to define capital as properly used in accounting. In doing so, we propose to show that the meanings assigned to this term in the best-considered definitions of economics, law and finance, so far from being in contrast with the accountant's concept of capital, in reality merely involve different aspects of the same thing. A definition of what capital is does not, however, determine what "the capital" is in a given case. Definition refers to quality; determination to quantity. By the former, we determine the nature of a thing; by the latter, we take its measure. Thus we shall be inevitably led to the subject of valuation and of the principles and modes of expressing valuations in formal statements of financial position.

At the risk of anticipating some of our conclusions, it may be stated that in developing the principles underlying the determina-
tion of capital there will be no occasion for giving special consideration to the system of capital stocks without a par value. That system we shall have to take into account in connection with the second phase of our investigation, covering the principles which should govern the determination of the amounts available for distribution of dividends. It may be well to state at this point that we have no intention of embracing within the scope of our inquiry those scraps of paper which are popularly known as stock dividends, but which are not dividends at all. Indeed, with the sole exception of the true dividend, this part of our treatise will deal with but one class of values, that of true reserves, including in that term not only certain values conventionally so designated, but also share capital and the nondescript, but nevertheless familiar, reserve called surplus.

With this, our programme will be completed. Passing notice will have to be paid to such matters as the proper interpretation of business transactions involving income and expense, but this will be requisite only in view of the effect of such interpretation upon book values of assets, liabilities and capital. But beyond the immediate effect of the transaction there are other factors, less palpable but by no means less powerful, which act and react upon financial condition. The recognition and evaluation of these influences are essential to the determination of both capital and dividends. For this reason, the principles which we are about to formulate must include those by which and in accordance with which those influences shall be given definite shape and expression.

THE PRINCIPLES WHICH SHOULD GOVERN THE DETERMINATION OF CAPITAL

CHAPTER II

DEFINITIONS OF CAPITAL

In the preceding chapter the position was taken that the signification of the term capital most appropriate to our inquiry must be sought in the field of accounting. It is here proposed to establish that position more firmly. To this end it is desirable to develop the accountant's definition of the term from an inquiry
into the meaning or variety of meanings which attach to the word capital in economic, legal and financial nomenclature. Probably no department of science has been more prolific of variety in definitions than has been that of economics in the definition of capital. The following is but a partial gleaning from a synopsis given by Professor Irving Fisher (The Nature of Capital and Income, chap. IV, sec. 2):

Adam Smith's concept of capital is wealth which yields "revenue." He would therefore exclude a dwelling occupied by the owner. Hermann, on the other hand, includes dwellings, on the ground that they are durable goods. But a fruiterer's stock in trade, which is capital according to Smith, because used for profit, according to Hermann does not seem to be capital, because it is perishable. Knies calls capital any wealth, whether durable or not, so long as it is reserved for future use. Walras attempts to settle the question of durability or futurity by counting the uses. Any wealth which serves more than one use is capital. A can of preserved fruit is therefore capital to Knies if stored away for the future, but it is not capital to Walras because it will perish by a single use. To Kleinwächter, capital consists only of "tools" of production, such as railways. He excludes food, for instance, as passive. Jevons, on the contrary, makes food the most typical capital of all, and excludes railways, except as representing the food and sustenance of the laborers who built them.

While all the foregoing distinctions are distinctions of kinds of wealth, there are equally numerous differences among economists as to other attributes of wealth, both inherent and external. The intention of the owner of wealth as to how he shall use it; the effect of wealth on the laborer; the amount of wealth possessed; the productivity of wealth; the utility of wealth; the value of goods as distinct from the concrete goods themselves; the kind of product yielded by wealth—all of these and many more have been proclaimed as criteria of capital.

Professor Fisher arrives at the conclusion that "the failure to agree on any dividing line between wealth which is and wealth which is not capital, after a century and a half of discussion, certainly suggests the suspicion that no such line exists." And Professor Marshall concedes that "whatever we do with the word capital, we cannot solve problems of capital by classifying wealth." ("Distribution and Exchange," Economic Journal, 1898, p. 50.)

Consistent with these conclusions, Professor Fisher includes all wealth, but recognizes that

when we speak of a certain quantity of wealth we may have reference either to a quantity existing at a particular instant of time, or to a quantity produced, consumed, exchanged, or transported during a period of time. The first quantity is a stock (or fund) of wealth; the second
quantity is a flow (or stream) of wealth. The contents of a granary at noon, January 1, 1906, is a stock of wheat; the amount of wheat which has been hoisted into it during a week, or the amount of wheat which has been exported from the port of New York during 1905, is a flow of wheat. The term "wealth" by itself is insufficient to determine which of the two kinds of magnitudes is meant.

The distinction between a fund and a flow has many applications in economic science. The most important application is to differentiate between capital and income. Capital is a fund and income a flow. This difference between capital and income is, however, not the only one. There is another important difference, namely, that capital is wealth, and income is the service of wealth. We have therefore the following definitions: A stock of wealth existing at an instant of time is called capital. A flow of services through a period of time is called income.

Thus, by the introduction of the element of time as a decisive factor, a clearer conception has been obtained of the nature of capital, not indeed as distinct from wealth—attempts at making such a distinction having so far proven futile—but as distinct from income. Yet, even Professor Fisher admits several interpretations of the term, which he states is employed as an abbreviation of either of the compound terms capital-goods or capital-value. And, although he expressly restricts his own use of the term capital to the meaning capital-value, this meaning itself includes a variety of concepts. It may reflect either assets and liabilities in general or net capital. The latter, in turn, may mean either original capital or present capital and, to add to the complication, the former of these is either nominal capitalization or actual paid-up capital, while the latter denotes sometimes the sum of the book values of shares in the capital stock, of surplus and of undivided profits and sometimes the market value of the shares!

The designation of capital as a fund existing at a given instant of time must be conceded to be the best-considered partial description yet advanced by writers on economic subjects. It is only when the term is indiscriminately applied to well-differentiated concepts such as those enumerated that we must object to its abbreviated use. If the terms wealth, goods, instruments, rights, value, are by themselves insufficient to indicate whether a fund or a flow is meant, then the term capital by itself is insufficient, in the absence of express reservation, whether it means a fund of instruments, of rights, of assets and liabilities in general, of original nominal value, of original paid-in value, of present book value or of present market value.

Historically, little or no difficulty was experienced in the application of the term capital prior to the advent of economists.
The term was preeminently a business term and, as such, was and is well understood. P. L. Simmonds' *Commercial Dictionary* defines capital as "the net worth of a party." Palgrave's *Dictionary of Political Economy*, under "assets," says: "The assets remaining after the discharge of liabilities are a person's actual capital." And F. W. Lafrentz ("Economic Aspects of Accounting and Auditing," *The Journal of Accountancy*, April, 1906) speaking of the difference between assets and liabilities, states: "The residue will be the net worth of the proprietor—the capital of the proprietor." Finally, Professor Fisher, discussing the balance-sheet (capital account) employed in business (loc. cit., chap. V, sec. 1), observes: "It is strange that any treatment of these accounts is generally omitted from economic text-books. There seems to be no systematic study of capital accounts in any work on political economy"; and he then proceeds to the following concrete definition, which is here reproduced for its admirable precision:

A capital account is a statement of the amount and value of the property of a specific owner at an instant of time. It consists of two columns,—the assets and the liabilities. The liabilities of an owner are the debts and other obligations owing to others; that is, they are the property-rights of others for which such owner is responsible. The assets or resources of the owner are all his property-rights, irrespective of his liabilities. The assets include both the property which makes good the liabilities, and the property, if any, in excess of the liabilities. They also include, if exhaustively considered, the person of the owner himself.

The owner may be either an individual human being, or a collection of human beings, such as a family, an association, a joint stock company, a corporation, or a government. With respect to a debt or liability, the person who owes is the debtor and the person owed is the creditor.

Every item in a capital account is an element of the owner's total capital, the assets being positive elements and the liabilities being negative. Consequently, the algebraic sum of the elements of capital, or the difference in value between the total assets and the total liabilities, is the net capital, or capital-balance indicated in the account.

With such authoritative endorsement of common business usage, it would seem proper for us to restrict the use of the term capital to the signification "net worth" as employed in business accounting. This application is, moreover, in keeping with the more advanced interpretations of the term in the field of jurisprudence, as disclosed by judicial decisions. That this branch of knowledge has not been immune from the confusion created by a host of economic writers is evidenced in *Smith v. Dana*, 60 Atl. 117, 121; 77 Conn. 543; 69 L. R. A. 76; 107 Am. St. Rep. 51:

"Capital" is a term which, as applied to private corporations as ordinarily constituted, is used with widely varying significations.
In one sense—the strict sense—it is employed to designate specifically the fund, property, or other means contributed or agreed to be contributed by the share owners as the financial basis for the prosecution of the business of the corporation; such contribution being made either directly through stock subscriptions, or indirectly through the declaration of stock dividends. As thus used, the term signifies those resources whose dedication to the uses of the corporation is made the foundation for the issuance of certificates of capital stock, and which, as the result of the dedication, becomes irrevocably devoted to the satisfaction of all obligations of the corporation.

Sometimes the term "capital" is used when what is meant to be designated is that portion of the assets of a corporation, regardless of their source, which is utilized for the conduct of the corporate business, and for the purpose of deriving therefrom gains and profits.

Frequently the term is employed in a still wider sense, as descriptive of all assets, gross or net, of a corporation, whatever their source, investment or employment.

It is not difficult to see that looseness of terminology such as is exhibited by the above synopsis makes for confusion rather than certainty. Of the several meanings of capital enumerated in Smith v. Dana, supra, the first corresponds to what is also termed capital stock; the second to so-called capital assets as distinct from circulating assets; and the third to either gross assets in the sense of assets in general or to net assets in the sense of assets equivalent to net worth. It is true that in some jurisdictions a clearer understanding has come to prevail, but it must be remembered that the decisions are largely of persuasive and limited authority only. Thus, in Person & Riegel Co. v. Lipps, 67 Atl. 1081, 1083, 1084; 219 Pa. 99, the court said:

... there is a well-understood distinction, universally recognized, between "the capital or property" of incorporated companies and "their capital stock." "The term 'capital' applied to corporations is often used interchangeably with 'capital stock,' and both are frequently used to express the same thing—the property and assets of the corporation—but this is improper. The capital stock of a corporation is the amount subscribed and paid in by the shareholders, or secured to be paid in, and upon which it is to conduct its operations; and the amount of the capital stock remains the same, notwithstanding the gains or losses of the corporation. The term 'capital,' however, properly means not the capital stock in this sense, but the actual property or estate of the corporation, whether in money or property. As was said in a New York case: 'It is the aggregate of the sums subscribed and paid in, or secured to be paid in by the shareholders, with the addition of all gains or profits realized in the use and investment of these sums, or if losses have been incurred, then it is the residue after deducting such losses.' ..."—Clark and Marshall on Corporations, 1140.

The foregoing definition of capital stock as distinct from capital is adduced here because of the useful part it is destined to play in our consideration of the problem of determining the aggregate value of shares of stock without a par value. For our present purpose, the distinction made is of especial value in clarifying the
legal concept of capital in its strict sense. This sense, while still expressive of things and rights, no longer insists on their identification or separation, but rather upon their amount or measure of value.

Capital as measure of value would seem to be a singularly appropriate aspect of our subject from the point of view of finance. But the measures of value which form the subject matter of finance, while including net worth, refer not so much to the determination of existing magnitudes as to the providing and administration of funds. The three problems of financial management, according to Gerstenberg (Materials of Corporation Finance, p. xvii), are those of maintenance, the provision of working capital and the distribution of surplus. To solve these problems, financial management must have access to reliable opinion, i.e., to statements of financial operation, and statements of financial position, measured in terms of value. These statements of financial position constitute the ultimate goal of accounting. When properly prepared, they fairly reflect economic, legal and financial status with a reasonably high degree of accuracy. They exhibit, therefore, capital in several senses of the term. More particularly, they exhibit debts and other forms of negative capital and, finally, they include as a specific class of values the algebraic sum of positive and negative elements—the accounting capital in the sense of net worth.

It must not be supposed that capital in the accounting sense is always used to designate net worth. Accounting terminology is no exception to the rule which seems to apply to all nomenclature except that of mathematics, namely, divergence of usage, looseness of application and dependence upon context and intent. Moreover, accounting, being the handmaid of economics, law and finance, properly makes use of their technical terms, vague as they may be. And so we find that in accounting, too, the term capital is associated with assets. To illustrate, it is one of the most important functions of accounting to reveal impaired capital. Capital is said to be impaired when either through losses or through improper payment of dividends there remain assets of a value less than the sum of all liabilities and of the fixed amount of the capital stock. An impairment of capital means an impairment of assets; and this meaning attaches to the expression in accounting no less than in law or in finance. What is important, however, is that, in good corporate
accounting at least, the impairment is always disclosed by the exhibition of a deficit, which measures the financial extent of the impairment. Where capital is unimpaired there is, of course, no deficit; but even here the capital—in the sense of net assets—is not cognizable from the list of assets, but from a group of items consisting of the amounts of capital shares, true reserves and surplus, and constituting in their entirety the net worth or capital in the proper accounting sense.

Capital, then, in the signification to which we shall adhere throughout the remaining stages of our study, is the difference in value between the total assets and the total liabilities of a business entity at a given instant of time and, as such, is a measure of momentary value.

Capital is either positive (net worth) or negative (true deficit). In the case of unincorporated business, positive capital is expressed in a single capital account or in the aggregate of the capital accounts of the several partners or associates. In the case of corporations, it is represented by the aggregate values of the accounts reflecting share capital, true reserves and surplus. In the case of corporations, moreover, positive capital may coexist with a lesser corporate deficit, which measures impairment of the capital stock and precludes the existence of true reserves and surplus but does not necessarily imply insolvency.

Capital is negative (a true deficit) when and to the extent that the sum of all liabilities exceeds the sum of all assets.

Capital is nonexistent (zero, neither positive nor negative) when the aggregate of all assets is equal to the sum of all liabilities. In corporate business this is the case when the corporate deficit is equal to the fixed amount of the share capital.

The foregoing exposition of the various phases of capital as a measure of momentary value is believed to be sufficiently clear to establish the specific concept with which the first part of our investigation proposes to deal. The object of our inquiry is not, however, to establish the nature of capital, but to formulate the principles which should govern the determination of its amount. Since capital is a measure of value, the principles applicable to its determination are principles of measurement. And since capital is the measure of an excess value, positive or negative, resulting from a process of arithmetical subtraction, it is requisite that minuend and subtrahend be expressed not merely in terms of value in general, but in terms of comparable value,
i.e., of value relating to a common standard. This common standard is the monetary unit.

The measurement of value is called valuation. The measurement of capital, therefore, must be preceded by and based upon the valuation of two primary classes of elements, namely:

1. Positive elements, conventionally known as assets;
2. Negative elements, conventionally known as liabilities.

And because many of these elements do not consist of actual money or of symbols of money, the measurement of their money values cannot be taken by a mere process of counting. In order to establish the monetary valuation of such elements with a degree of accuracy justifying reliance, it is essential that the valuation be made in accordance with well-defined principles.

These principles it will be our aim to formulate in succeeding chapters. Before we can address ourselves to this task profitably, however, a general understanding must be had of the manner in which financial position is technically presented by accountants—in other words, of the structure of the balance-sheet.

CHAPTER III

THE STRUCTURE OF THE BALANCE-SHEET

All statements of financial position express the fundamental fact that


And since what I claim constitutes rights which I have, the equation may be reduced to the following form:

What I have = What I owe + What I am worth,
or, to substitute technical accounting terms,

Assets = Liabilities + Capital.

Conforming to the position of the elements entering into the above equation, double-entry bookkeeping assigns to them corresponding places in the ledger—asset values on the one side are opposed to values representing liabilities and capital on the other. But there are other classes of value which are housed on opposing sides of the ledger.
It is sometimes desirable for some special reason to separate the account of an asset, of a liability, or of a proprietor into two accounts, usually in order to present two different valuations. We shall call the supplementary account an offset or an adjunct to the principal account, according as it is intended to be subtracted from or added to the principal account. (Sprague, Philosophy of Accounts, Sec. 135.)

The supplementary accounts designated by Sprague as offsets are of three kinds—offsets to assets, offsets to liabilities, and offsets to capital—and are exemplified, respectively, by

1. Reserves (improperly so called) for depreciation, appearing on the ledger side opposite to and in accounts separate from those showing the cost of corresponding assets;

2. Unamortized discount on bonds issued and outstanding, appearing on the ledger side opposite to and in an account separate from that showing outstanding bonded debt;

3. Corporate deficit, appearing on the ledger side opposite to and in an account separate from that showing the fixed amount of the capital shares.

The accounts exemplified by the first of the foregoing examples appear in the ledger on the same side as those showing liabilities and capital, but they signify neither. They represent merely corrective values, applicable against or as a partial offset to the values shown by the accounts of the corresponding assets. The designation reserves generally given this type of accounts is unfortunate in that it is identical with the name properly assigned to another type of accounts which we shall have occasion to consider in detail. To the former, some writers have attempted to assign the name provisions (e.g., provision for depreciation), but the author is unable to perceive what is provided by these accounts, unless it be a means of determining the present depreciated values of the assets affected. Their sole purpose and function is to render possible the presentation of two and the calculation of a third value: the cost of the asset, the accumulated depreciation and, by comparison of the two, the depreciated cost value of the asset. The designation offsets assigned to them by the late Charles Ezra Sprague, is by far the most fitting. Hatfield (Modern Accounting, p. 50) has termed them valuation accounts from the German “Bewertungskonten.” Owing to the general currency which the term reserves, as applied to this class of offsets, has attained, it is deemed desirable, for our purposes,
to distinguish the members of this class of offsets as pseudo-reserves.

The type of offsets represented by unamortized discount on bonds issued and outstanding will be more fully discussed under the subject of deferred charges. It must be admitted that the concept of offset to a liability, applied to this class of account, is rather forced and artificial.

The third example, corporate deficit, is a true offset, in that it measures the impairment of the supposedly fixed value of the shares in capital stock. Its presentation as an offset may be considered compulsory in view of the fact that in contemplation of law the capital stock, which forms the basis for the issuance of shares therein, is inviolable.

The supplementary accounts designated by Sprague as adjuncts are likewise of three kinds—adjuncts of assets, adjuncts of liabilities and adjuncts of the capital-shares account. Their consideration will be reserved for a future portion of our study.

Offsets—with the exception of corporate deficit—and adjuncts are not absolutely necessary to a proper presentation of financial status in the ledger. The accumulated depreciation, for example, might be written off the corresponding asset account, with the same effect upon capital. But the use of offsets and adjuncts is convenient and instructive, and facilitates current and subsequent analysis.

As amplified by these conventional forms of account, a ledger maintained in accordance with the principles of double-entry bookkeeping, and from which accounts signifying income and expense, gains and losses have been eliminated through the process of "closing," will exhibit the financial position of the business at the given instant of time by account balances ranged on opposite sides and representing values of

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjuncts to assets</td>
<td>Adjuncts to liabilities</td>
</tr>
<tr>
<td>Offsets to liabilities</td>
<td>Offsets to assets</td>
</tr>
<tr>
<td>Offsets to capital shares</td>
<td>Capital shares</td>
</tr>
<tr>
<td>True deficit</td>
<td>Adjuncts to capital shares</td>
</tr>
</tbody>
</table>

Conforming to conventional accounting technique, balance-sheets are frequently presented in account form, opposing positive goods and negative proprietorship on the one side to negative goods and positive proprietorship on the other. But it is proper
and conducive to lucidity if offsets, instead of being shown, as they are on the ledger, opposite their principal accounts, are shown as items subtracted from the latter. The balance-sheet, after all, is not a mere reproduction of account balances. It is, or should be, a readable statement, free from complicated matter and detail. It is

almost always condensed by grouping into a single item many balances of similar nature. . . . This gives a more comprehensive view of the business at the moment, but a less minute one. (Sprague, supra, sec. 71, 72.)

In the words of M. Bara, the Belgian minister of justice, it is a "reduced photograph of the inventory." It may be deftly retouched here and there, but obviously not at the sacrifice of its likeness to the original. Thus it would be misleading if claims against debtors, amounting to $10,000, and liabilities to creditors aggregating $8,000, were merged in the balance-sheet into one item showing claims against debtors to be $2,000. While such a presentation would have no effect upon the amount of the capital, it would nevertheless misrepresent the relation of the business to its customers and entirely conceal its liability to creditors.

While the foregoing illustration exemplifies one of the grosser cases of misrepresentation and concealment, numerous other opportunities exist for rendering the balance-sheet of doubtful or negative value as a means for forming an intelligent and reliable judgment about the financial state of affairs. The presentation of the owner's equity in real property only, instead of both the cost price and the purchase-money mortgage given in part payment; the inclusion under the one caption of "accounts receivable" of customers' accounts, loans to officers and employees and amounts due from subsidiaries—these and similar abbreviations and combinations have been and are being used either in ignorance of their significance or with intent to defraud. "Even the improper division of an account may be resorted to in order to hide the fact that a company is too largely involved in a single line of investment." (Hatfield, Modern Accounting, p. 57.)

Another source of uncertainty is found in the looseness and vagueness of terminology. Much has already been accomplished toward the attainment of uniformity by the action of the Interstate Commerce Commission in prescribing a certain nomenclature in railroad accounting. But the task seems almost hopeless. The use of the term reserve to designate both a part
of capital and an offset to certain assets has already been criticized. Other terms to which no single signification has as yet been authoritatively assigned, are treasury stock, reserve fund and adjustment account. The American Institute of Accountants, through a standing committee on terminology, is giving the subject of uniform nomenclature renewed thought and attention. It is to be hoped that the cooperation not only of the accounting profession, but also of associations of bankers, manufacturers and trading concerns can be permanently enlisted in this important mission.

The importance of a clear and truthful presentation of the elements entering into the balance-sheet becomes even more evident when it is considered that upon such presentation depends the degree of accuracy with which the amount available for distribution of dividends can be determined. It is at this point that we are confronted with a formidable difficulty, inherent in the nature of accounting itself, which, at best, can never be free from error. Hence, "a balance-sheet is not a statement of facts, but rather an expression of opinion." Being an opinion, it must contain elements of uncertainty. These appear principally in the matter of valuation, both of assets and of liabilities.

The subject of valuation, and the formulation of the principles which should govern the measurement of the positive and negative elements requiring expression in the balance-sheet constitute the theme of our next chapter.

CHAPTER IV

THE PRINCIPLES OF VALUATION

When we speak of an object as possessing a certain money value, we express the measure of its purported equivalent in money. But this measurement, unlike that of a dynamo in terms of horse-power, or of wheat in terms of bushels, is not a statement of fact, but a statement of opinion. In measuring wheat or in determining the capacity of a dynamo we have reference only to a standard unit, the bushel or the horse-power. In measuring the money value of anything but money, the standard unit is one of several elements entering into our processes of thought. For in our expression of the money value of a given object, we tacitly imply:
1. That the object is capable of satisfying certain wants;
2. That in order to obtain satisfaction of these wants, certain persons are willing to sacrifice other goods.

The first of these premises involves either the direct use of the object in question, or its surrender in exchange for other objects. Depending on whether the former or the latter is intended, the value assigned to the object is either use value or exchange value.

The second premise requires the existence of a demand and thus necessarily implies reference to persons. Only persons exchange goods or pay money. But here, too, there are alternatives. The person implied may be either a single individual—as, for example, the owner of the object—or a generality of individuals—as, for example, the inhabitants of a country. Depending on whether the object is desired by a particular single individual or by a generality of individuals, the value assigned to it is either its particular value or its general value. Accordingly, the value of a given object may be any one of the following four values:

1. Particular use value;
2. General use value;
3. Particular exchange value;
4. General exchange value.

From these considerations it is apparent that money value is not an inherent quality of an object; that it is not absolute, but relative; and that it is not objective, but subjective.

The question as to which of the foregoing four kinds of value are properly applicable to the several elements entering into the balance-sheet has given rise to much controversy. It was long held—and the view still possesses limited currency—that at the basis of valuation for balance-sheet purposes lies a fictitious general liquidation of the business at the time for which the balance-sheet is drawn, i. e., that valuations are to be made as though all assets were to be sold and all liabilities liquidated at the time. And because assets which have to be sold on a given day will bring much less than their value if preserved to their owner and to their former purposes, the advocates of this theory demand that the effect of sudden liquidation should be disregarded.

H. V. Simon, from whose *Die Bilanzen der Aktiengesellschaften* has been adapted the greater portion of the matter treated in this chapter, justly ridicules the suggestion that a valuation
based on an assumed liquidation can at the same time disregard the effect of such liquidation.

He claims, on the other hand, that it is necessary to find a general viewpoint from which the valuations of the several elements can be justified. The function of the balance-sheet—the determination of the net worth of a business at a given moment of time—presupposes the existence and application of principles which are not contradictory, but harmonious and consistent; else it would not be a statement of financial position, but a conglomerate of unrelated and irrelevant gossip.

An harmonious and consistent principle of valuation for balance-sheet purposes, such as we require, can only be formulated with due regard to the nature and purposes of the balance-sheet itself. Now, the balance-sheet, as we have seen, purports to be a statement of the financial position of a definite business entity at a given moment of time. Divorced from the business entity to which it specifically applies, the several elements composing this statement of financial position assume a new character. In other hands their values change; some are not transferable at all. What is an object of use for one owner is an object of exchange for another. What one may be able, by virtue of advantageous connections, to sell at a great profit, another is compelled to dispose of with little or no gain. Moreover, the same object may possess different use values for different persons, dependent upon the purposes they have in mind and upon the means which they are able to expend.

Obviously, for the purposes of the balance-sheet, it is a matter of indifference to the owner of an object what value it possesses in the hands of another. Equally irrelevant is the use value of an object which its owner intends to sell or the sale value of an object intended for permanent use in the operations of the business. Legitimately, the owner is interested only in the value possessed by each object for his particular purposes—in each object's particular value—at the given moment of time.

Of the four types of value which we have considered, two types are thus eliminated from the purview of valuation for balance-sheet purposes, and the only choice lies between particular use value on the one hand and particular exchange value on the other.

In consonance with these conclusions, we are now able to gen-
eralize the principles which should govern the determination of capital. They are as follows:

1. The values to be assigned to the several elements entering into the determination of the capital of a given business entity are the values which they severally possess to that particular business entity at the moment of time for which the capital is to be determined.

2. In the valuation of several elements entering into the determination of the capital of a given entity, the purposes for which they are severally intended at the given point of time must always be taken into consideration.

This general statement of principles applies to both positive and negative elements of capital. In the application of these principles there is neither room nor need for exceptions. The moment we admit the existence of exceptions to a principle, we deny the existence of the principle. Hence, in grammar, where there are exceptions we have not principles, but rules.

A detailed discussion of the application of these principles to each of the multitude of elements which may enter into the composition of a business entity's capital is not within the scope of this treatise. It behooves us, however, to illustrate their application in a general way and incidentally to draw attention to some current fallacies.

And first, as to the fundamental distinction, from the point of view of a particular business entity, between elements intended for permanent use in the operations of the business and elements intended for sale or exchange. We shall designate the former as use elements and the latter as exchange elements.

To be classified properly as a use element, it is not necessary that the object be in actual use in the operations of the business at the moment of time for which the balance-sheet is drawn; it is sufficient—and it is also necessary—that it be intended for such use permanently. For example, a railroad company which has acquired a piece of land on which it intends to erect a terminal may, pending commencement of building operations, lease the ground to others during the interval, but will be justified in classifying it as a use element. On the other hand, an industrial concern which has come into ownership of real property as a result of the foreclosure of a mortgage held by it, may temporarily employ the property in its own industrial operations but will properly treat it as an "exchange element" if it intends its sale.
Prize Essay

The purpose for which an object is held may, of course, change. Failure to find a purchaser for land intended for sale may induce the owner to devote it henceforth to his own use as, for instance, by building warehouses. Conversely, property originally intended and actually used for industrial purposes may become superfluous or otherwise undesirable. In such an event the owner may decide to abandon its use and offer it for sale. A special case of conversion from the class of use elements to that of exchange elements occurs in the general liquidation of a business.

Use elements may be tangible or intangible. They may consist of land, buildings, plant and equipment and of such items as good will, franchise, patents, trade-marks and copyrights. What stamps them as use elements is not their character, but the purpose for which they are intended in the hands of their present owner. For this reason materials intended for use in the construction or enlargement of use elements are themselves use elements.

That certain objects may be either use elements or exchange elements is illustrated by the class of assets known as investments. Normally, stocks and bonds are not held for permanent use in the operations of a business. This applies especially to the securities in which sinking funds and replacement funds are frequently invested. They are intended to be sold for the purpose of raising the moneys necessary, respectively, to liquidate funded debt and to replace outworn plant and equipment. Similarly, funds invested and reserved for unforeseen contingencies cannot be said to have any other purpose than exchange for liquid funds in the event of the happening of such contingencies. All these investments constitute exchange elements. As use elements may be considered those investments of a business entity which are intended to be held permanently either for the revenue they yield or for the control of policy they confer. The holdings of federal reserve bank stock by member banks illustrate the former, while industrial stocks held for the purpose of permanent participation in and financial and administrative control of related enterprises is an example of the latter type of investments.

The significance of the distinction between use elements and exchange elements becomes apparent in the application of particular value to objects which on the date for which the balance-
sheet is drawn have a market value less than original cost. If
the object is intended for sale or exchange—if it is an exchange
element—its particular value to the business can no longer be
said to be its cost. The shrinkage from cost to a lower market
value has been accompanied by at least an equal shrinkage in its
particular value. Not so in the case of an object intended for
permanent use—a use element. A 50-horse-power dynamo
devoted to the permanent use of lighting a factory building may
have a market value far lower than its cost to the factory owner;
yet its market value has no effect upon the particular use value
of the dynamo to its owner. It is altogether without significance,
because there is no intention to sell it.

This use value, while possibly equal to cost, will normally be
less than cost by reason of wear and tear and the ravages of
time. Valuation at cost is not a norm, but a limit. Deprecia-
tion through use, non-use or abuse inevitably affects the value
of an object to its owner and must accordingly find expression in
the valuation of the object. This is accomplished either through
writing off or through setting up pseudo-reserves. The scope of
the present treatise does not include a discussion of the principles
applicable to the determination of depreciation or of the several
methods by which equal or varying amounts of depreciation are
distributed over the useful life of an object. However, a word
seems in order on the subject of depreciation through obsoles-
cence. There is no doubt that obsolescence may compel the
premature abandonment of an object and the practice must be
commended of making provision against such an event while
the object is in active use. What is objected to is not this prac-
tice, but the expression which it frequently receives in the ac-
counts and balance-sheets affected. Depreciation from wear and
tear and depreciation from obsolescence differ in that the former
is a flow and the latter usually a blow. The former is properly
expressed as an accumulated and accumulating diminution of the
particular value of the asset affected. But when the effect of
obsolescence is anticipated by periodical provisions, these pro-
visions constitute not diminutions of value, but reservations of
value. They are not pseudo-reserves, but true reserves; not
offsets to assets, but adjuncts of capital stock.

Depreciation of certain intangible objects is due to the lapse of
time. Terminable concessions such as mining rights, patents,
copyrights and the like diminish in value with the approach of
their expiration. Not infrequently their value is exhausted prematurely.

A diminution of value may be experienced also in the case of rights against persons such as customers. Obviously, a claim of this nature which is known to be uncollectible must be valued at zero. Similarly, an appropriate reduction of book value must be made in the case of claims the realization of which is thrown in doubt by the financial embarrassment or insolvency of the debtor and of claims which are in litigation. Such reductions are usually expressed as offsets in the guise of pseudo-reserves.

Claims against debtors constitute exchange elements in the sense that the debtors themselves purchase these claims through payment. In a similar sense, liabilities to creditors must be considered exchange elements because they are ultimately extinguished by the surrender of another exchange element, cash. Like all other elements, they are subject to valuation on the basis of the principles which we have formulated. Some of them will be further discussed in a subsequent chapter.

Needless to say, it is immaterial to the status of an exchange element that it requires further treatment before it can be sold or exchanged or that it is entirely consumed in the conduct of the business during the period following the date of the balance-sheet. The fact that it is not intended for permanent use in the operations of the business constitutes it an exchange element. For this reason, raw materials, unfinished goods, consumable supplies and unexpired services are exchange elements; and this applies equally to unearned income, a type of liability or commitment corresponding to prepaid expenses such as unexpired services. Nor is it necessary, in the case of rights, that they are matured, or of liabilities that they are due at the date of the balance-sheet, to justify or require their inclusion in the balance-sheet as exchange elements. They possess a determinable value.

That exchange elements are subject to depreciation as well as use elements is universally conceded. In the case of physical exchange elements, depreciation is due to decline in market value and deterioration. In the case of immaterial exchange elements, such as claims against debtors, commercial paper and current investments, it may be due either to decline in market value or to the accomplished or threatened failure of the debtor and, in some cases, to the doubtful legality of the claim.

Considerable difficulty has been experienced by writers on
accounting in explaining a cherished precept of good accounting practice—the precept which demands that an increase in the market value of an object must be disregarded in all circumstances. We have already seen that in the case of use elements the market value is entirely irrelevant, regardless of whether it is higher or lower than cost. But in the case of exchange elements, colorable argument has been adduced to show that increase in the market value of an exchange element affects its particular exchange value to the owner.

Simon (Die Bilanzen der Aktiengesellschaften) was compelled to face the issue by a provision in the German commercial code which expressly prohibits valuation in excess of cost. He goes so far as to state that this requirement, when applied to exchange elements, in fact compels an understatement of the particular exchange value, thus creating a compulsory secret reserve. And Hatfield (Modern Accounting, pp. 101 et seq.) maintains that the principles of valuation in strict logic demand

that merchandise for sale be valued at the present selling price, with a reduction to cover selling expenses. A real change having taken place in selling value, the original cost is of no effect, for whether bought at a high or low cost, its value to the concern is determined at the normal price at which it can now be sold. But the German commercial code, in many respects a guide to those whose accounting practices are so free from legal control, in attempting to prevent overvaluation prescribes that the cost price of merchandise must be taken, except where there is a publicly quoted price—as for instance for grain in a produce exchange—which is lower than the cost price.

American practice agrees with German law.

Simon denies that the prescription is aimed against overvaluation and attributes it solely to a desire to prevent the payment of dividends out of unrealized profits. Accordingly, he claims that the prescription does not affect the determination of capital but the determination of the amount available for distribution of dividends.

We disagree with both writers. We do not insist that the cost of an object always measures its particular exchange value, for the object may have deteriorated or it may be possible to duplicate it at a lesser cost. We deny, however, that a given object can have a value to its owner in excess of cost. For in that case, there could be no profit from sales. The owner who assigns to such an object a value in excess of cost does so in contemplation of a future sale and thereby disregards the fact that the balance-sheet applies to a point of time anterior to such sale. An owner's unwillingness to part with the object at cost does not increase its
value. It merely proves that he hopes to realize more than cost. It may even be that his persistent refusal to sell may altogether deprive the object of its character as an exchange element and transform it into a use element, if its nature and that of the business permit. In the latter case, its valuation in excess of cost would be admittedly meaningless. Even where a contract for the future sale has been entered into, it is not the object to be sold, but the owner's present right against the future purchaser which embodies the additional value.

If valuation at cost were simply a compromise of principle to prevent the payment of dividends out of unrealized profits, there could be no excuse for the inclusion of unsecured claims against debtors either at book value or at any value. For in such claims not only the profit, but even the cost of the elements the sale of which has given rise to the claims has passed out of the vendor's control and is, therefore, unrealized.

The contention that the practice referred to has no bearing upon the determination of capital and is dictated solely by considerations having to do with the determination of the amount available for distribution of dividends involves other fallacies. It involves that valuation at cost does not properly apply in the case of liquidation, for during liquidation the payment of dividends ceases. It is at least conceivable that even in the process of winding up a business some objects will yield a profit. This is recognized by Simon, who arrives at the remarkable conclusion that valuations may be higher for a business in liquidation than for the same business as a going concern.

Finally, the contention criticized implies that the determination of the amount available for distribution of dividends demands a more conservative valuation than the determination of capital. Nothing could be farther from the truth. Not a different basis of valuation, but an accurate presentation of the exact nature of all the elements and of their relation to each other and to the business as a whole is required for the determination of dividends. The inference that valuation of capital conflicts with valuation of distributable capital (dividends) imputes to the balance-sheet the impossible function of serving incompatible purposes. The imputation is refuted by the long-established and successful use of the balance-sheet as the only available documentary instrument for the determination of both capital and dividends. The statement that valuation of exchange elements
The Journal of Accountancy

at cost, where their market value is higher, creates a secret reserve must therefore be characterized as due to a misapprehension of the significance of the particular exchange value of a given object to a given business entity at a given moment of time.

Cost, as here used, means the totality of expenditures incurred by the particular business entity in the acquisition of production of a given element. More particularly, it includes such items as freight, insurance during transportation, commissions, unloading and installation. It does not include trade discounts and cash discounts taken or rebates and similar allowances. However, the determination of cost is by no means always an easy matter.

Exchange elements are usually bought in different lots and at different prices and sold in smaller quantities. Unless positively capable of identification, the remaining inventory should be valued on the basis of the average purchase price. The average here referred to is, of course, the weighted—not the general—average. A little reflection will show that any other basis must be misleading. Moreover, the purchase price must be genuine and not one artificially created for balance-sheet purposes. To illustrate, a company owning bonds of the par value of $100,000 for which it paid $90,000, in order to establish a technical basis for placing this item in the balance-sheet at $100,000, sells these securities on December 1, 1923, at par with an option to repurchase at par on or before December 31, 1923. At the same time it gives the purchaser an option to sell at par on or before December 31, 1923. Depending upon the market value of the bonds during the term of the option, either the company will elect to repurchase or the holder ad interim will elect to sell. In either event, the company reacquires the bonds, for which it originally paid $90,000, at $100,000. It is obvious that the entire transaction is merely a scheme to establish a record of purchase at a price which in truth is $10,000 in excess of cost—for at no time was there a transfer of ownership bona fide.

Much controversy has arisen over the question of what constitutes cost of production. In the broadest sense, all expenditures are cost, but not all expenditures are production costs. Modern accounting practice tends to allocate expenditures as far as possible to the products which absorb or are supposed to absorb the objects of expenditures. This tendency has given
rise and momentum to a special branch of accounting—known as cost accounting—which is chiefly concerned with the problem of where, when and how to allocate what it conceives to be the production costs of a business. There is as yet, however, no unanimity of either principles or practice, with the result that cost accounts are lacking in uniformity of treatment.

The chief value of cost accounting lies in the establishment of a danger signal in the fixation of the selling price of a product; and this it accomplishes, broadly speaking, by more or less judicious distribution of direct, indirect and overhead expenses and costs over the product. That the ingenuity of cost accountants has thus provided an invaluable instrument for the determination of selling price even under conditions of keenest competition will, we believe, be generally acknowledged. But there is ample reason to take exception to the claim that even the most approved methods of cost accounting determine the actual cost of a product beyond a moderate degree of plausibility.

Indeed, weighty arguments may be advanced in support of the claim that conventional cost accounting does not determine the cost of production. Depreciation of plant and equipment takes place during idleness as well as production. Even the propriety of adding to the cost of the product the amount of depreciation due to production may be questioned. For while it is certain that the manufacturer must consider depreciation in the calculation of the selling price, its inclusion in the cost of the unsold product means the annulment, through valuation, of a diminution of value. The contention that depreciation has been incurred for the purpose of production does not state a fact. A manufacturer does not produce for production's sake, but for the sake of selling the product at a profit. If he fails to sell at all, he can derive little satisfaction from the transfer of the amount of depreciation of his plant and equipment to the cost of his product.

Analogous reasoning may be applied to other costs which are conventionally distributed as production costs. What actually constitutes a cost of production is a question of fact which must be answered in each individual case after full consideration of all the conditions and circumstances. Generally speaking, production cost is the cost of those objects of expenditure which have been specifically imparted to the product (Simon, loc. cit. p. 347).
The difficulties of determination of cost of production are not exhausted by the uncertainties as to its nature. Materials and wages are subject to fluctuations. The fact that some of the products are sold in the course of the accounting period renders it almost impossible to determine just which raw material and what wages have gone into the remaining stock. The cost accounts will normally show only the total cost of production for each kind of product during the accounting period. Normally, therefore, the average cost of production must be applied to each unit of the remaining inventory. It is only where the individual cost of production is ascertainable beyond question that the more specific individual cost is a proper basis of valuation. In the absence of reliable cost data there remains no alternative but appraisal. Whether cost is determined by cost accounts or by appraisal, as a basis of valuation for balance-sheet purposes, it yields to a lower market value.

Appraisal becomes necessary in cases where property is acquired by the issuance of shares of capital stock without a par value and in cases where a variety of objects are acquired for a lump sum. With the principles of appraisement we are not here concerned. Suffice it to say that in each instance it is the particular use value or the particular exchange value, as the case may be, which is required for balance-sheet purposes.

Frequently, a repartition of cost, involving appraisal of the parts of an originally uniform whole, is required. To illustrate, a tract of land is acquired and subsequently improved and subdivided for sale. Part of the land is set aside for streets and other public purposes. The remaining portion will normally be composed of parcels of particular exchange value varying by reason of location. If the average cost per acre is $100, some parcels will have a particular exchange value of less and some of more than that amount per acre. If the average were used and a uniform percentage added to fix the selling price, the most valuable parcels would be taken up at once, while the least valuable would remain unsold, with the result that their particular exchange value would have to be accepted when it was too late to retrieve the loss incurred through the undervaluation of the parcels sold. Valuation, in such cases, must be by parcels. Notable instances are the state land settlements at Durham and Delhi, California.

Finally, appraisal is necessary in the case of objects which
Prize Essay

have been acquired by gift. That such objects should be valued at zero is a fantastic suggestion which fails to recognize the mathematical significance of the expression "cost equals zero." That significance is that cost does not exist. Such being the case, it cannot be used for comparison with any other basis of valuation, such as market value or use value. Surely, no one advocates that money acquired by gift should be valued at zero.

Consistent application of the principles outlined demands, as we have seen, that valuation of use elements should never be in excess of cost and that valuation of exchange elements should never exceed either cost or market value. But consistent application of these principles demands with equal force that the values to be assigned must be those which the elements severally possess to the particular business entity at the given moment of time. Obviously, then, any undervaluation is an improper valuation for balance-sheet purposes. Undervaluation may take place either directly by the understatement of the value of a given object—including the omission of the object from the balance-sheet—or indirectly by erroneous or fraudulent book entries. The treatment, in the books of account, of so-called capital expenditures as revenue expenditures, the writing off of excessive amounts of depreciation or bad and doubtful debts and failure to take into the balance-sheet accrued income and prepaid expense are illustrative of the many methods which may be employed, either ignorantly or with fraudulent intent, in the undervaluation of capital.

The plea of conservatism is put forward in justification or excuse of such practice for balance-sheet purposes. But "it is hard to believe that so good a cause as financial conservatism needs such unholy allies as misrepresentation and deception." For it is evident that every undervaluation of assets and, correspondingly, every overvaluation of liabilities, creates a secret reserve of capital which, in the words of Hatfield, "may be used as a means of refusing to pay dividends really earned, which, so far as it applies to holders of income bonds or noncumulative preferred stock, may work an irreparable loss. Even where there are no such divisions of interests, it may lead ignorant stockholders, thinking the balance-sheet correct, to dispose of their stock at less than its real value." (Modern Accounting, p. 254.)

The foregoing considerations seem to us to justify the demand that in the valuation of capital for balance-sheet purposes the
unctuous admonitions of a false conservatism be resisted no less firmly than the tempting allurements of an extravagant optimism.

Valuation of capital deals with realities and requires, therefore, not the perfunctory expression of conjectures, but a statement of mature opinion based upon careful analysis in accordance with the principles herein developed and illustrated.

(To be continued)
Relation of the Accountancy Instructor to the Development of Professional Standards in the Practice of Accountancy*

By Homer S. Pace

My conception of the scope and nature of accountancy is, perhaps, not altogether the orthodox one. Therefore, as a preliminary to my discussion of The Relation of the Accountancy Instructor to the Development of Professional Standards in the Practice of Accountancy, permit me to state briefly my own ideas of this new and developing profession.

Accountancy, to my way of thinking, is the response to the demand, on the part of modern business, for men and women who are competent to construct, to operate and to advise with respect to the administrative methods and procedures used in modern organization. These methods and procedures include the mechanism of a sound working organization; the intelligence or accounting system by means of which financial facts are recorded and made available for management purposes; and the methods and procedures used in financing, in employing and managing personnel and in conducting other administrative detail such as credit supervision, collections and correspondence.

Modern organization has created a demand for technique that is not the technique of the engineer, who is concerned especially with physical plant and equipment—a technique that is not the technique of the lawyer, who is concerned principally with legal questions related to organization and property rights. It was inevitable that the demand for exact knowledge of organization and accounting should result in a new profession. This new profession, known as accountancy, is the accompaniment of a new era—the era of organization. This profession, now in its elementary stages, is, because of our work as instructors in accountancy, very much in our keeping.

Let me say, further, that accountancy has a private practice, as well as a public practice. A person who engages in public practice offers his services to clients, on a professional basis, in matters

*An address at the annual convention of the American Association of University Instructors in Accounting held at Columbus, Ohio, December 28, 1923. The address was delivered without notes and varied somewhat from the formal text.
The Journal of Accountancy

of principle and detail that are directly related to accounting, financial, business and organization procedures.

The accountant in private practice, on the other hand, makes his services available on a salaried basis to a private business organization, to a non-profit organization or possibly to some division of government. The duties of the private or executive accountant, while directed largely to the same matters that engage the attention of the public accountant, are of an operative nature rather than of an advisory nature.

In engineering we have an analogous condition. Many practitioners accept private employment and work for organizations on a salary basis, while others become consulting engineers and render services to clients on the fee basis. The professional basis rests upon the technical knowledge possessed by the individual and not upon the manner in which he makes his services available. The time will come when, with certain restrictions and distinctions, we shall recognize as professional accountants all those persons who possess certain technical knowledge, regardless of whether the individual engages in public or private practice. The public accountant, of course, undertakes distinctive responsibilities. A way must be found, therefore, to make certain necessary distinctions between public and private accountants, but this distinction can be made without keeping many able accountants engaged in private employment outside the pale of professional accountancy.

In my paper, having thus stated my ideas as to the greater profession, I shall speak especially with reference to the public practice of accountancy.

We have in accountancy a profession that is new. We do not have the professional incidents of texts, schools and terminology to the same extent as we do in the older professions. We have schools, but they are in their formative stages and without a generally accepted programme as to what should be included in a professional accountancy course of study. We have books, but they consist, in the majority of instances, of compilations of facts rather than of statements and elucidations of principles. We have a few definitions that are commonly accepted, but we have no professional terminology that is generally used and accepted by schools, practitioners and the courts. We have professional societies, but we are still incubating new ones and experimenting with many of those we have. We are developing ethical standards,
but we have not yet fully crystallized our practices into a definite ethical code.

We have available for the development of the professional accompaniments of terminology, texts, schools and curricula only three classes of accountants—the accountants in public practice, the accountants in private practice and the accountants giving instruction. I realize, of course, that many of us are engaged in both teaching and practice. Generally speaking, however, we have the three distinct groups of workers.

In the group of public accountants, we have our greatest repository of facts with respect to public practice—facts as to both the constructive and the auditing phases of accountancy. We must look to these accountants for information with respect to the matters directly related to public practice.

In the group of private accountants, we have our greatest repository of knowledge with respect to operative details of organization, management and procedure. We must look to these accountants for the facts and the sanity that develop from the testing of theories in the rugged mill of actual business.

In the group of accountancy instructors we have a great potential ability with respect to the formulation of a terminology, to the discovery and statement of principles, and to the preparation of acceptable curricula. We may look with confidence to our teachers for the discovery and the statement of many principles and for the development of texts and curricula. All of this work, however, should be based upon an intimate study and a thorough understanding of the results obtained by accountants who are engaged in the actual private and public practice of accountancy. Care should be taken to refine and test the theories developed by original thinking by the actualities of business itself.

Many public accountants, it is true, fail to realize the potential power in the hands of our teachers—they do not realize that we have in our schools our greatest opportunity for moulding incoming accountants to our standards of ethics and practice. Many able accountants give much thought and time to the matter of establishing ethical standards among practitioners and neglect to give thought or time to the teaching of ethical concepts to students whose minds are receptive, and who are anxious to have guidance from successful practitioners.

Our profession, still somewhat in the apprentice stage of development, does not properly recognize or encourage its teachers—
those upon whom the continuity and development of the profession to a considerable extent depend. These matters will, in due course of time, change as we develop as teachers and give evidence that we are capable of giving instruction in accountancy that really prepares for practice.

Many of my friends in public practice are valiantly striving to overcome as best they can the defects in the equipment of their juniors—defects caused in many instances by the lack of effective coöperation between teachers and practitioners. My impression is that it would be much more profitable for us as a general procedure to go back along the line of vocational progress to the professional school and there, at the fountainhead, to take steps to insure the inculcation of sound principles and conceptions of practice. More and more attention must be given by practitioners to the schools in which accountants are trained if we are to save the enormous waste of imparting in practice ideas that should have been acquired in school.

What can we do as teachers to help practising accountants in the important matter of establishing ethical standards of practice? First, we must look for the most complete and best recognized set of ethical rules. We find them, I believe, in the rules of professional conduct of the American Institute of Accountants. The institute is our oldest and, I presume, our largest national society of practising accountants. By dint of a good deal of hard work, extending over several years, the members have brought their ethical beliefs into a definite set of rules. The institute's code includes, as a former president of the institute, Carl H. Nau, points out, rules dealing with the accountant's duty to the public, his duty to his clients, his duty to his profession and his duty to his fellow practitioners.

It is not my purpose to speak in detail of the provisions of the institute's code. Suffice it to say that the institute has accomplished the remarkable task (remarkable in view of the relatively undeveloped state of the profession) of bringing its ethical rules into substantial harmony with the ethical rules of professions whose development has extended over centuries.

I am sorry to say that little effort has been made by the institute, so far as I am aware, to encourage accountancy teachers to bring these rules to the attention of students. Every accountancy student, in my judgment, should be taught these rules as a matter of routine. In accordance with this idea, the rules of
professional conduct of the institute, as well as many historical and other matters relating to professional accountancy societies, have been included as a part of the text used in the schools in which I teach. Every student is required to answer in writing questions that relate to the ethical standards maintained by the institute. The rule on advertising, recently added to the code, was thus being taught to large numbers of students within a few months of its adoption.

Many of the older professions seem to have no serious difficulty with respect to ethical problems such as advertising. The young attorney entering into practice usually possesses, no matter what other defects he may have, a proper ethical sense with respect to his calling. An analysis would disclose the fact, I believe, that this invaluable professional attribute of the young lawyer is acquired from his instructors while attending a school of law. The same result is attained whenever the instructors in a school of accountancy take pains to teach their students the ethical procedures of accountancy practice.

Teaching of this kind need not be limited to the rules of the institute. Many interesting phases of the ethics of the other professions may be elucidated. In addition, a presentation of the ethical standards of modern business as developed and codified by forward-looking business men's clubs, such as the Rotary, Kiwanis, Civitan and Lion organizations, in conjunction with the study of professional ethics, would be of great value to accountancy students. No school can afford to neglect so important a topic, and the professional societies, it seems to me, should urge such instruction upon all accountancy schools.

What can we do as teachers to develop a greater civic consciousness and usefulness on the part of incoming practitioners? The teaching of professional ethics is important, but it leads chiefly to the protection of the profession itself. There is even a greater need for encouraging accountants to seek public service that will enable them to make their technical abilities available for community purposes. The young attorney, who often has plenty of time on his hands, enters gladly into such service. The young accountant, on the other hand, is likely to be more limited in time, and he is too likely to consider his hours of time in the nature of a commodity which is to be made available only in consideration of his established per diem rate.

There are many instances, it is true, in which accountants have
performed notable public services, but this spirit of public service does not often show itself in the early years of practice. Many an accountant, able enough in practice, never fully awakes to the fact that there is a great opportunity in local government, and in local philanthropic, religious and social affairs, for him to contribute an extremely valuable service. The civic consciousness of the accountant, particularly the young accountant, needs stimulation. In the absence of this public service, the community not only loses valuable technical help that it needs, but the profession of accountancy loses much of the prestige which comes to the other professions by reason of the civic activities of their members.

The accountancy teachers of the country could do more than any other agency to stimulate the civic consciousness of the accountant. The teachers are already doing much to encourage their students to take an interest in public affairs. Many subjects are introduced into our courses of study for this very purpose. As a very practical instance of this tendency, in New York hundreds of accountancy students from various private and collegiate schools were employed at election time, at the suggestion of a well-known public accountant who is interested in civic matters, to verify the ballot count. In this instance, however, the suggestion came from a practising accountant—not from a teacher. It can be shown, incidentally, that work of this kind, undertaken in the genuine spirit of service, not infrequently results in personal advantage and benefit to the individual practitioner. There is no better way for a young professional man to come to the favorable notice of his fellow citizens than to render effective public or philanthropic service.

Many of you know of the action of the American Institute, taken at its last annual meeting, for the establishment of a bureau of public affairs. The plan is to make available to chambers of commerce and other civic organizations, to clubs, and to various commercial organizations the services of members of the institute for the purpose of speaking or of rendering advisory services with respect to matters of public interest. Speakers will be provided on taxation, arbitration, commercial fraud, budgeting and other subjects that are of public interest. In addition, the bureau will provide articles on various technical subjects for use in trade magazines and other periodicals. The whole work is to be conducted as a technical accountancy service for the benefit of the public.

As a member of the committee which is in charge of this new
and important division of institute work, I wish particularly to ask the cooperation of the instructors present in laying a foundation for our work. I ask you to undertake, as a specific matter, the development on the part of your students of a spirit of public service. If you can develop this spirit in the students in our schools, within a few years the viewpoint of the members of the profession will have been measurably broadened and a great good to the public and to the profession will have been accomplished.

We are a great commercial country, possibly the greatest. Our supremacy in commerce we may hope to maintain for many generations. It is reasonable to suppose, therefore, that it is in order for us to develop financial advisors and counsellors of commanding stature—men who will be able to give sound advice on the problems of international finance, of federal, state and local taxation, of rate regulation, of tariffs, of wage scales, and the like. Advisory work of this kind should be closely related to the greater accountancy which I have attempted to describe. Our aim should be nothing less than the development of men able to carry successfully the great burdens of a professional service related to all forms of organized effort, particularly those of an economic character.

We may reasonably hope, it seems to me, that many of the master intellects in commerce of the next generation will be found within our own group of practising accountants. We may hope to have directors of finance and municipal controllers chosen, as a matter of course, from our own ranks. We may reasonably hope to have a professional accountant filling the position of the director of the federal budget. We may hope, in due time, to have an accountant filling the position of commissioner of internal revenue and others serving as members of the cabinet—as secretary of the treasury or secretary of commerce. Why not? It is merely a matter of measuring up to the opportunities of our calling.

Our success in attaining these results will depend not so much upon the accountants now in active practice as upon the accountancy teachers of the country. Busy practitioners are not especially concerned with tomorrow or even the day after—they are grappling with conditions as they are, and their viewpoint in the majority of instances will be shaped by the exigencies of the hour.

The teacher, on the other hand, is chiefly interested in things more distant. He is fully aware that his graduate is not likely this year or the next to achieve fame. The teacher believes, how-
ever, that if the educational equipment of his protégé is sound, he and his fellows will carry the profession in which they work to new achievements, to new heights.

To you, the teachers of accountancy, therefore, the accountants must look for the future of the profession. You have in your hands the fate of accountancy of tomorrow, the greater accountancy. I trust, therefore, that each one of you will leave nothing undone in his particular sphere of work to inculcate ethical and civic conceptions that will serve to advance the interests of the calling in which we are so keenly interested and of which we are so proud—the profession of accountancy.
EDITORIAL

In the April Journal of Accountancy we noted with an unavoidable brevity but profound sorrow the passing of Elijah Watt Sells. Every reader of this magazine and all others who have the interest of accountancy at heart must have learned of this sad event with a feeling of deep regret, for Mr. Sells was known far and wide throughout the country as one of the chief leaders in that development of accountancy which has characterized the history of the last twenty-five or thirty years. From the very beginning of his participation in public accounting he had the broader vision and the mental capacity which alone make possible true leadership. It is probably safe to say that no one in the entire profession in America was more highly esteemed than he, and his death leaves a gap which cannot be filled. It is, however, something for which to be sincerely thankful that the profession in its early days and in its recent days too enjoyed the stimulus which he imparted to its development. His name will stand enrolled for all time as one of the broadminded and honorable gentlemen who succeeded in bringing from small beginnings into a position of national prominence the vocation in which he was engaged. His experience in railroad accounting and in governmental investigation combined with the knowledge which comes from a wide and diversified public practice gave an authority to his opinions which could scarcely be challenged. The great firm which was built up under the direction of Charles Waldo Haskins and himself is an enduring monument to the excellence of the two partners who were the creators of the firm.

His Interest in the Institute

Following the amalgamation in 1905 of the Federation of Accountants and the American Association of Public Accountants Mr. Sells became president of the united body in 1906 and held office through 1907. He was one of the committee appointed in 1915 to draw up the plan of
The Journal of Accountancy

organization for the American Institute of Accountants and he devoted an enormous amount of time and energy to the fulfillment of the plans then adopted. He was one of the prime movers and one of the largest financial contributors to the endowment fund of the institute, which has had such an enormous effect upon the entire practice of the profession in this country. For many years he was a member of the council and of the executive committee and retained his active interest until the condition of his health made imperative the relinquishment of some of his public activities. Baker University conferred upon Mr. Sells the honorary degree of master of arts and New York University gave him the honorary degree of doctor of commercial science. The giving of the latter degree was accompanied by the following splendid encomium:

"Elijah Watt Sells—for preëminence in a department of human effort in which the prime essentials are accuracy and truth; for the prevision which prompted you to secure for accountancy academic recognition; for distinguished service rendered to local governments, and especially to the government of the United States, both at home and abroad—I confer upon you, by authority of New York University, the degree of doctor of commercial science."

Mr. Sells was a member of many of the prominent clubs in New York, was a certified public accountant of several states and was the author of some important contributions to the literature of finance and accounting.

New Legislation

The bill introduced in the New York legislature amending the certified public accountant act, which was the subject of comment in the April issue of THE JOURNAL OF ACCOUNTANCY, passed both houses of the legislature and at the time of writing this note is before the governor for approval or rejection. In view of the importance of the bill we publish it on another page for the information of our readers. Another important piece of legislation has been written on the statute books of Maryland. This amends the Maryland law and restricts the practice of accountancy on and after July 1, 1924, to certified public accountants of the state of Maryland and to a limited class to be known as public accountants. The latter class is to embrace persons in practice but not certified at the time of the passage of the act. It is therefore limited in number and will gradually be reduced. An interesting feature of the law is the extension of the confidential privilege to communications between an account-
ant and his client. It is not possible to deal comprehensively with the law in this issue of The Journal of Accountancy, but the matter will be further discussed in June.

**Editorial**

The members of every profession and of nearly every trade, in these days when the spirit of altruism is acknowledged to be one of the bases of success, are seeking ways and means to bring about closer fellowship between all men and women engaged in such professions or trades, not only locally but in a wider national sense. The great increase in the number of national associations, societies, institutes and the like is a clear indication that without coördinated effort on the part of all or nearly all the followers of any calling the highest success cannot be achieved. In the realm of accountancy the American Institute of Accountants has done for its profession a great and permanent work. The profession is able to speak with a united voice and to make its voice heard in government, finance, commerce and industry. But a national organization is not sufficient in a country so large as the United States. There must be district organizations which will render possible a communion between the practitioners in the various sections of the country. This finds expression in regional meetings. But the scheme of getting together is carried yet further by the creation of chapters of the institute which are being formed in some of the principal cities or districts. There is, however, a further application of the principle of professional brotherhood which is beginning to find favor and will probably spread as the advantages of it become better known. We refer to what is sometimes called the accountants’ round-table or luncheon idea. In many cities, such, for example, as San Francisco, Kansas City, Cleveland and elsewhere, it has become the custom for all the accountants, particularly those who are members of the institute, to arrange to take lunch at the same time and place on at least one day of every week. These luncheon meetings are absolutely informal. No officers are elected or needed. Someone acts as chairman for the day and there is general and friendly discussion of subjects which have come up in the experience of the accountants present. Opinions are asked and generally freely given as to the proper treatment of problems. Accountants are quite rapidly absorbing the idea that it is as blessed to give as to receive, and they are
also finding that their competitors in practice are really pretty decent fellows after all when one comes to know them. It is an old theory that one cannot be much of an enemy to the man with whom one constantly rubs elbows. There are doubtless many exceptions to this rule, but as a general thing it is indubitably true that members of any vocation who meet and commune one with another are less apt to fall into misunderstandings of each other's professional practices than are those who lack personal touch. The Arabs have a very beautiful custom or tradition which makes it impossible for those who have shared their salt to be enemies thereafter. This seems to be one of the things which we more enlightened folk are learning from unexpected sources.

One of the constantly recurring questions in accountancy practice is the right of possession to the working papers of an accountant. In The Journal of Accountancy the opinion has been expressed editorially that as a general rule the working papers of an accountant are the accountant's property and cannot be demanded by the client. The final results of investigation of an audit are the property of the client, but the working papers, which are in a sense the workman's tools, are not to be regarded as a portion of the finished labor. It is unfortunate that there have been no court decisions in regard to this particular matter. Lacking a decision there will always be a difference of opinion as to this somewhat vexed matter. Perhaps a friendly suit will be conducted between a client and an accountant in order to reach adjudication by a competent court. A decision relative to the right of revenue agents to require accountants to present working papers has recently been given and this is of much importance to the entire profession. The case was decided by the United States district court for the southern district of Alabama on January 11, 1924. The suit was by the United States against the First National Bank of Mobile and was based upon sections 1308 and 1310 of the revenue act of 1921. The petition set out that a client of the bank had not made full, true and correct statements of his income and that books of the bank containing the accounts of the client would furnish material assistance to the United States in determining the true income of the individual and prayed that the court require the bank officers and employees to testify and the
bank to produce its books and accounts. The petition was granted.

Section 1308 of the revenue act of 1921 provides:

"That the commissioner, for purpose of ascertaining the correctness of any return or for the purpose of making a return where none has been made, is hereby authorized, by any revenue agent or inspector designated by him for that purpose, to examine any books, papers, records, or memoranda bearing upon the matters required to be included in the return, and may require the attendance of the person rendering the return or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises, and may take his testimony with reference to the matter required by law to be included in such return, with power to administer oaths to such person or persons."

Section 1310 of the revenue act of 1921 provides:

"That if any person is summoned under this act to appear, to testify, or to produce books, papers, or other data, the district court of the United States for the district in which such person resides shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers or other data."

The act authorizes the commissioner to examine any books, papers, etc., bearing upon the matters required to be included in the return, and to require the attendance of the person making the return or the attendance of any other person having knowledge in the premises. The language of the act may be sufficiently broad to require accountants to furnish their working papers and to testify themselves if requested to do so. It does not appear to restrict the commissioner to such papers and testimony as would be admissible under the rules of evidence. The fact that the communications between accountants and their clients are usually intended to be confidential will not enable accountants to refuse to produce their working papers. "In general, the mere fact that a communication was made in express confidence, or in the implied confidence of a confidential relation, does not create a privilege." Certain specific relations as attorney and client, physician and patient, husband and wife, deliberations of petit and grand juries and state secrets constitute exceptions to the general rule and are privileged from disclosure. The basis for these exceptions rests upon objective considerations and not upon any honorable obligation. Accordingly, a confidential communication to a clerk, to a trustee, to a commercial agency, to a banker, to a journalist or to any other persons not coming within one of the recognized exceptions is not privileged from disclosure. The act authorizes the commissioner to designate any agent or inspector to examine books, papers, etc.
The right of stockholders to examine books and records of a corporation is a matter frequently brought to the attention of accountants in the course of their labors. A decision rendered by the supreme court of Illinois in regard to this question has been brought to our notice. It is true that the judgment rendered was reversed owing to the erroneous instruction of the court, but that does not affect the main issue. The plaintiff, a stockholder of the Highways Motor Company, made a request for permission for his attorney to inspect the company's books and records. The request was granted on the condition that no memoranda or copies therefrom should be made. The attorney proceeded to examine the books and made memoranda which led to his being compelled to terminate his inspection. The plaintiff brought suit under that provision of the general corporation act which gives stockholders the right to examine the books of account and provides that any officer or director who denies such access shall be liable to the stockholder. The court said:

"The right of a stockholder to inspect and examine the books and papers of a corporation was recognized at common law and existed in the absence of any statutory provision on the subject... Under the above section of the statute stockholders are given the broad right to examine the books, records and papers of a corporation at reasonable and proper times. The object of the statute is to guarantee to every stockholder, regardless of the amount of his interest, the right to examine into the transactions of his trustees and to protect his interests. The enactment of such statutes has been held by this court to be a proper exercise of the police power of the state and does not deprive the corporation of any vested rights or impair the obligation of any contract... It has been held both under the rule at common law and under the statutes on this subject, that the right of the stockholder to inspect and examine the books and papers of a corporation permits him to make abstracts, memoranda or copies thereof. The right rests, as does the similar right to an examination, upon the broad ground that the business of the corporation is not the business of the officers exclusively but is the business of the
stockholders. To deny a stockholder the right to make memoranda and copies from the records virtually amounts to a denial of the right to inspect and examine the books and papers of the corporation."

**Profession and Business**

A bright young man called at the office of this magazine the other day and requested permission to see a list of all the accounting firms engaged in practice in the city of New York. He represented an investment house and explained with a charming naïveté that he was intending to send out to the accounting firms a remarkable proposition. It was to the effect that those who in the course of their practice found it necessary to recommend plans for financing or refinancing should communicate with the investment house aforesaid. The house would then investigate the case and if it seemed desirable would undertake to provide a plan of financial adjustment which would be profitable to everyone concerned—it would be profitable even to the accountant, on a strictly commission basis. Our visitor was utterly astonished and dismayed when shown rule 4 of the rules of professional conduct of the institute which reads as follows:

"No member or associate shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to others as an incident of his services to clients."

It was something new to find an investment house imbued with the thought that any professional man would accept a commission of this kind. It is not altogether unusual, unfortunately, to hear of stationery concerns and even of other businesses which are ready to offer compensation of this nature. A recent circular received by a member of the institute reminds the reader that "we buy accounts receivable" and "should you find it within the scope of your duty to your clients to suggest a consultation with us we shall of course be most willing to show our appreciation of your efforts in our behalf in a tangible satisfactory-to-you manner." This sort of thing is due merely to ignorance. It is distressing, however, to find a financial house of some standing with so small an appreciation of the difference between right and wrong, between profession and business, as was indicated by the visit of our bright young man.

363
An interim commission appointed by
the last legislature of Minnesota for
the purpose of investigating state de-
partments and state institutions and to
make a report to the next legislature, which convenes in 1925,
held a meeting in the state capitol at St. Paul during the time of
the last C. P. A. examinations. The members of the commission
visited the examination room and made inquiries in regard to
the state board of accountancy. There was a conference upon the
subject and at the conclusion the members of the commission
indicated that they would be much pleased to have the assistance
and coöperation of accountants in their surveys of various de-
partments. This indicates the benefit of ocular demonstration.
There are states in which a commission of legislators might
possibly be unfamiliar with the labors of certified public account-
ant examiners. It is conceivable that some legislators in remote
and benighted states even at this date do not have a sufficient
knowledge of public accountancy. However, it is gratifying that
in Minnesota there is to be coöperation between accountants
and legislators. The Minnesota chapter of the institute has
appointed a committee to coöperate with the interim commission
and there is no doubt whatever that the plan will be fruitful.

In presenting this issue of THE JOURNAL OF ACCOUNTANCY to our readers it is
probably unnecessary to draw attention
to the great improvement in the form of the magazine. For
many years it has been the tendency of magazines to depart
from what is technically known as the side-stitched in favor of
the sewn binding. There are difficulties which are involved
in the change, but modern development of sewing machines makes
it now possible to produce an edition binding without protracted
delays. It is very much more satisfactory to the reader to have a
magazine which will open easily at any page and remain open
than it is to struggle as one must with the inflexible publication
of the old-fashioned kind. In this issue also we depart from
linotype composition and adopt the more clearly legible mono-
type. These improvements are in line with the general policy
of the magazine to provide an increasingly attractive and valuable
production and we trust that our readers will appreciate the
improved appearance and convenience of the magazine.

364
New York Legislation

Following is the text of the bill passed by both houses of the legislature of the state of New York relative to the practice of accountancy in that state. At the time of going to press the governor of the state had not signified his approval or disapproval of the bill:

AN ACT
TO AMEND THE GENERAL BUSINESS LAW, IN RELATION TO THE REGULATION OF THE PRACTICE OF PUBLIC ACCOUNTANCY AND THE AUTHORIZATION OF PUBLIC ACCOUNTANTS TO ENGAGE IN SUCH PRACTICE.
The people of the state of New York, represented in senate and assembly, do enact as follows:

Section 1. Article eight of chapter twenty-five of the laws of nineteen hundred and nine, entitled "An act relating to general business, constituting chapter twenty of the consolidated laws," as amended by chapter four hundred and forty-three of the laws of nineteen hundred and thirteen, is hereby amended to read as follows:

ARTICLE VIII
PUBLIC ACCOUNTANTS

Section 80. Definitions. As used in this article: (1) "The education department" means the education department of the state of New York, as provided for by the education law. (2) "The university" means the university of the state of New York. (3) "Regents" means the board of regents of the university of the state of New York. (4) "The board" means the board of accountancy referred to in section eighty-a of this article. (5) "The public practice of accountancy" is defined as follows:

A person engages in the public practice of accountancy within the meaning and intent of this article who, holding himself or herself out to the public as a
qualified practitioner of accountancy, offers for compensation to perform, or who does perform, on behalf of clients, a service that requires the audit or verification of financial transactions and accounting records; the preparation, verification and certification of financial, accounting and related statements for publication or credit purposes; or who in general and as an incident to such work renders professional assistance in any or all matters of principle and detail relating to accounting procedure and the recording, presentation and certification of financial facts.

Section 80a. New York board of accountancy. To carry out the provisions of this article, there is hereby created a state board of accountancy, to be known as the "New York board of accountancy," hereinafter called the "board," consisting of five members, who shall be appointed by the regents of the university of the state of New York within sixty days after this article becomes effective. The members of the first board shall be appointed to serve for the following terms: one member for one year; one member for two years; one member for three years; one member for four years; and one member for five years. On the expiration of each of said terms, the term of office of each newly appointed, or re-appointed member of the board shall be for a period of five years. Each member shall hold over after the expiration of his term until his successor shall be duly appointed and qualified. The regents may remove any member of the board for misconduct, incompetency, or neglect of duty. Vacancies in the membership of the board, however created, shall be filled by appointment by the regents for the unexpired term.

Section 80b. Qualifications and expenses. Each member of the board shall be a citizen of the United States and a resident of this state at the time of his appointment. He shall have been engaged in the practice of accountancy, as defined in section eighty of this article, for at least ten years, and shall have been a certified public accountant for at least five years, and shall be, after this article becomes effective, a licensed practitioner in this state, as provided in this article. Each member of this board shall receive such compensation as may be determined by the regents, for attending sessions of the board or of its committees, and for the time spent in necessary travel, and in addition shall be reimbursed for all necessary travel and other necessary expenses incurred in carrying out the provisions of this article.

Section 80c. Powers of the board. Each member of the board shall receive a certificate of appointment from the regents and before beginning his term of office, he shall file with the secretary of state the constitutional oath of office. The board shall have power to compel the attendance of witnesses, administer oaths, and take testimony and proofs concerning all matters within its jurisdiction; and shall make all by-laws and rules not inconsistent with law, needed in the performance of its duty, and approved by the board of regents.

Section 80d. Organization and meetings of the board. The board shall hold a meeting within thirty days after its members are first appointed, and thereafter shall in the month of October hold a regular annual meeting, at which it shall elect from its members a chairman, a vice-chairman and a secretary. Other regular meetings shall be held at such times as the by-laws of the board may provide, and such special meetings shall be held as may be necessary. Notice of all meetings shall be given in such manner as provided in the by-laws. A quorum of the board shall consist of not less than three members.
Section 80e. Receipts and disbursements. The secretary of the board shall receive and account for all moneys derived from the operation of this article and shall pay them to the regents, who shall pay therefrom all expenses incurred in carrying out the provisions of this article, and shall pay any portion of the moneys received, which shall remain after the payment of these expenses, into the state treasury.

Section 80f. Records and reports. The board shall keep a record of its proceedings and a register of all applicants for the certificate of certified public accountant, showing with respect to each application, the date, name, age, education, and other qualifications, place of business and place of residence, whether or not an examination was required, and whether the applicant was rejected or a certificate of certified public accountant granted, and the date of such action, and in any civil or criminal proceeding involving the violation of any part of this article, the books and register of the board, or a certificate thereof by the chairman of the board, shall be prima facie evidence of all matters recorded therein.

Section 80g. Certified public accountants. The certificate of certified public accountant shall be granted to any citizen of the United States, any person who has declared his intention of becoming such citizen, who resides within the state of New York, or has a place for the regular transaction of business therein, and who is over twenty-one years of age and of good moral character, and who shall submit evidence satisfactory to the board of the possession of academic and professional qualifications for the practice of public accountancy and who passes the required examination; provided that the regents may in their discretion, upon recommendation of the board and without examination, issue the certificate of certified public accountant (a) to any accountant who for a period of three years or more preceding January first, nineteen hundred and twenty-five, has been engaged in the practice of public accountancy within the state, or to any accountant who for a period of three years or more preceding January first, nineteen hundred and twenty-five, has been in responsible charge of accounting engagements as an employed member of the staff of an accountant, or of a firm of accountants engaged in public practice within the state or to any accountant, who is a graduate of a school of accountancy approved by the board of regents and subsequent to such graduation has received a certified public accountant certificate after passing an examination by a duly constituted board of certified public accountant examiners in another state, in which the examination is equal to that required in this state, and who has been in reputable practice of accountancy in this state for a period of not less than one year since receiving his certified public accountant certificate, and provided that each applicant mentioned in this subdivision (a) is engaged in the public practice of accountancy at the time this article goes into effect, provided further such applicant submits evidence of other qualifications satisfactory to the board, and provided further that such applicant makes application for the certificate of certified public accountant on or before the first day of January, nineteen hundred and twenty-five, and provided further that he has been in continuous practice from the date this article becomes effective to the date of his or her application; and (b) to any accountant who has practiced three years or more as a certified public accountant in another state or political subdivision of the United States under a
license or a certificate of his qualifications so to practice, issued by the proper authorities of such state or political subdivision, and whose professional and other qualifications are satisfactory to the board; and the regents shall make all necessary rules for the examination of persons applying for the certificate of certified public accountant and for otherwise carrying into effect the provisions of this section, including a fee of twenty-five dollars, which fee shall accompany every application for a certificate. Applicants examined and licensed in accordance with the provisions of this act but who are not admitted to the licensing examination who were citizens of a foreign country and who had declared intention of becoming citizens of the United States shall upon passing the examination be issued a certificate of certified public accountant valid for six years from the date of such declaration of intention and upon failure of such accountant to furnish evidence of his having actually become a citizen his certificate shall become invalid and automatically become revoked and his registration and license shall be annulled.

Section 80h. Issuance of licenses. The regents upon application, and upon the payment of a fee of two dollars and upon recommendation of the board, shall issue to any person to whom the certificate of certified public accountant has been granted, a license to engage in the public practice of accountancy, which license shall cover a period of time not exceeding thirteen months, and shall be renewable as hereinafter provided in this article, and under the authority of which the person to whom the license is issued, may engage in the public practice of accountancy in the state of New York, either on his own behalf, or as a member of a firm of public accountants.

The regents shall annually during the month of January publish an alphabetical list of the names, certificate numbers and last-known addresses of all certified public accountants, who are licensed to practise as hereinafter provided, and containing also an alphabetical list of the names of the copartnerships and firms, any member of which is licensed to practise, with the names of members licensed to practise, and shall mail one copy to every person listed therein, to every public library in this state, and to every county clerk in this state, and otherwise distribute the same as the regents in their discretion may consider advisable. And each such published list shall contain at the beginning thereof these words: "Each certified and licensed public accountant receiving this list is requested to notify the secretary of the board the name and address of any person known to be practising as a public accountant, whose name does not appear in this registry. The names of persons giving such information shall not be divulged."

Section 80i. Expiration and renewal of licenses. The licenses issued under this article shall expire on the last day of the month of December following their issuance or renewal, and shall become invalid on that date unless renewed; provided that licenses issued between December first and December thirty-first in any year, shall not expire until December thirty-first of the year following. It shall be the duty of the secretary of the board to notify by mail every person licensed hereunder, of the date of the expiration of his or her certificate, and the amount of the fee required for its renewal for one year; and such notice shall be mailed at least one month in advance of the date of expiration of said certificate.

Renewal may be effected, provided no disqualification has occurred, at any

368
time during the month of December, upon application by the holder of the license, for renewal, and the payment of the annual license fee of two dollars to the secretary of the board. The failure on the part of any licensee to renew his license annually in the month of December, shall not deprive him or her of the right of renewal thereafter, but the fee to be paid for the renewal of a license after the month of December, shall be increased twenty per centum for each month, or fraction of month that payment for a renewal is delayed, provided, however, that the maximum fee for a delayed renewal shall not exceed twice the regular fee.

Section 81. Penalties and their collection.

(1) Any person who shall
(a) Sell or fraudulently obtain or furnish any certificate of certified public accountant or license, or aid and abet the same, or
(b) Practise accountancy as defined in section eighty of this article, under cover of any certificate of certified public accountant, or license illegally or fraudulently obtained, or signed, or issued unlawfully, or under fraudulent representation or mistake of fact in a material regard, or
(c) Advertise to practise accountancy under a name other than his own, or under a false or assumed name, and
(2) Any person, who not being a certified public accountant and licensed to practise accountancy within this state, as defined in section eighty of this article, or not authorized within the provisions of sections eighty-two and eighty-two-a, shall
(a) Practise or holds himself out to practise public accountancy, or
(b) Use in connection with his name, any designation tending to imply or designate him as engaged in the public practice of accountancy, or
(c) Use the title "certified public accountant," or any abbreviation thereof in connection with his name, or with any trade name in the conduct of any occupation or profession involving or pertaining to the practice of accountancy, unless duly authorized by law to use the same, and
(3) Any person who during the time his license to practise accountancy shall be suspended or revoked, shall practise accountancy as heretofore defined, shall be guilty of a misdemeanor. Such misdemeanor shall be punishable by imprisonment for not more than one year, or by a fine of not more than five hundred dollars, or by both such fine and imprisonment for each separate violation.

(4) All courts of special sessions within their respective territorial jurisdictions are hereby empowered to try, hear and determine such crime without indictment, and to impose the penalties herein prescribed.

Such misdemeanors shall be prosecuted by the district attorney of the county wherein the same are committed, and at any time the attorney-general may, without further authority or direction, supersede the district attorney in the prosecution of such misdemeanors.

(5) In addition to the criminal liability, imprisonment and fine, as above provided, a civil penalty is hereby prescribed and imposed, which shall be one hundred dollars for each such violation to be recovered by the attorney-general in an action against the party or parties guilty of such violation, which action shall be maintained in the name of the people of the state of New York. Such civil penalty shall be cumulative, and each separate day's violation shall
constitute a separate violation, for which recovery may be had by the attorney-general, as above provided. The attorney-general, with the consent of the state commissioner of education, may compromise claims for such penalties, and accept less than the amount claimed, or due, before or after an action has been begun. No compromise may be made, however, after a decision made or verdict rendered, except pursuant to section thirty-four of the state finance law. Notwithstanding the provisions of any other general, local, or special law, all penalties, fees, forfeitures of bail and fines recovered under this article shall be paid to the regents, who shall pay over to the attorney-general out of the sums received, a sufficient amount to pay the salaries of such deputies and assistants as the attorney-general shall assign for the enforcement of this article, and the attorney-general is hereby authorized to pay any deficit in such salaries, or any additional sum necessary out of his general appropriations. The balance of such sums retained by the regents shall be used for the expenses of the regents in the enforcement of this article. On the first day of July, beginning in the year nineteen hundred and twenty-five and each year thereafter, the regents shall pay any balance of such fund remaining in their hands to the state treasurer. After this article shall take effect, the regents shall report to the state comptroller on the fifth day of every month, the amounts received by them under this article and remaining in their hands, with all expenditures made by them for the preceding month.

(6) The display of a card, sign, or an advertisement bearing a person’s name as a practitioner of accountancy in any manner, or by implication, or containing any other matter forbidden by law, shall be presumptive evidence in any prosecution or hearing against such person that the person whose name is so carried thereon is responsible for the display of such card, sign, or advertisement, and that he is advertising to practise accountancy thereby. In any prosecution under this section, the proof of a single act prohibited by law shall be sufficient without proving a general course of conduct.

(7) All violations of this article when reported to the regents or the board, and duly substantiated by affidavits or other satisfactory evidence, shall be investigated, and if the report is found to be true, and the complaint substantiated, the regents or the board shall report such violation to the attorney-general and request prompt prosecution. The regents may appoint such inspectors as are necessary, to be paid from the funds received under this article, at such salaries as they may determine, for the purpose of the investigation of such violations.

Section 82. Use of firm names. Nothing contained in this article shall prevent the use in accountancy practice of a firm name or style of partnership duly registered under the laws of this state, provided one partner of such firm and every partner of such firm, who is engaged in the conduct of accountancy practice in the state, is a certified public accountant of New York, and is duly licensed to practise in New York, as elsewhere provided in this article, and further provided that every member of such firm is a certified public accountant or chartered accountant or otherwise legally qualified accountant of the state or country of his domicile, and further provided that unless every member of such firm or such copartnership is a certified public accountant, said firm or copartnership shall not hold itself out as a firm or copartnership of certified public accountants; and nothing contained in this article shall prevent the
employment by a certified public accountant, or a firm or copartnership of
certified public accountants, of unlicensed persons as junior, semi-senior or
senior or other assistant accountants, provided that the unlicensed employees
work under the control and supervision of certified public accountants, and do
not certify to any one the accuracy or verification of audits and statements,
and provided further that such unlicensed employees do not hold themselves
out as engaged in the practice of accountancy as defined in section eighty of
this article; and nothing in this article contained shall prevent the continuation
in practice of any corporation of this state which was chartered prior to January
one, nineteen hundred and twenty-four to practice accountancy, and which has
since continuously so practised and is engaged in the practice of public accountancy
at the time this article takes effect, provided that no person other than
a certified public accountant of this state shall act as its executive or manager
or shall execute on its behalf any certificate or report.

Section 82a. Practice of accountant from other jurisdictions. A public
accountant who has not qualified to practise under this article, and who
resides without the state of New York, and who does not hold himself or herself
out to the public as a practitioner of accountancy within the state of New York,
may perform work within this state on engagements which arise as an incident
to his or her practice in the state or political jurisdiction in which he or she is
accredited; provided that the exercise of this privilege shall not be made con-
tinuous practice by such accountant within the state.

Section 82b. Effect of invalid provisions. Should the courts of this state
or the United States declare any provision of this article unconstitutional or
unauthorized, then such decision shall affect only the section or provision so
declared to be unconstitutional or unauthorized, and shall not affect any other
section or part of this article.

Section 82c. Revocation and re-issue of certificates of certified public
accountant and license. The regents shall have the power, on the recommenda-
tion of the board, to revoke the certificate of certified public accountant or
license to engage in the practice of public accountancy, of any certified public
accountant, licensed under the provisions of this article, who has been convicted
of a felony, or who is found guilty of any fraud or deceit in obtaining a certificate
of certified public accountant, or a license to practice public accountancy or
of gross negligence, incompetency, or misconduct in the practice of public
accountancy. Any person may prefer charges of such fraud, deceit, negligence,
incompetency or misconduct against any certified public accountant licensed
under the provisions of this article; such charge shall be in writing, sworn to
by the complainant and submitted to the board. The board shall fix the time
and place for a hearing upon all charges submitted to it. The board shall fix
the time and place for a hearing by not less than three members of the board,
within three months after the date on which they are submitted. A copy of
the charges, together with a notice of the time and place of hearing shall be
served on the accused at least thirty days before the date fixed for the hearing,
and in the event that such service cannot be effected thirty days before such
hearing, then the date of hearing and determination shall be postponed to such
further days as may be necessary to permit the service. At said hearing the
accused shall have the right to appear personally and by counsel, and to cross-
examine witnesses against him or her, and to produce evidence and witnesses
in his or her defense. If after said hearing, three or more members of the board vote in favor of finding the accused guilty of any fraud or deceit, in obtaining a certificate of certified public accountant or license, or of gross negligence, incompetency or misconduct in the practice of public accountancy, the board shall recommend to the regents, the revocation of the certificate of certified public accountant or license of the accused.

The regents may, on recommendation of the board, re-issue a certificate of certified public accountant or license to any person whose certificate has been revoked.

The regents shall within thirty days notify the clerk of each county of the state of its revocation of a certificate of certified public accountant or license, or its re-issuance of a revoked certificate of certified public accountant or license.

Section 82d. New certificate or license to replace certificate or license lost. A new certificate of certified public accountant or license to replace any certificate or license, lost, destroyed, or mutilated, may be issued upon presentation of satisfactory evidence to the board that the claim for such certificate or license is a valid claim. A charge of twenty dollars shall be made for such re-issued certificate or license.

Section 2. This act shall take effect immediately.
Income-tax Department

EDITED BY STEPHEN G. RUSK

An eminent member of our profession has expressed the opinion that federal income taxes will be a decreasing source of practice for accountants during the next few years. Whether or not this is an accurate prophecy time alone will reveal.

In connection with thoughts generated by the said prophecy, our attention has been directed quite forcibly to federal and state taxation of estates and the possibilities there are to the accounting profession in this field. Many of our brethren are alive to this fact at present and have in the usual course of their practice rendered invaluable services to their clients in counseling and advising as to the purport of these laws and as to disposition of their possessions in such form and manner as not to put too great a burden upon the estate of a decedent at the time the tax becomes due and payable.

A very interesting example of the effect the federal and state estate and inheritance taxes have upon an estate is furnished in an article from the Boston News Bureau.

A resident of Massachusetts died recently leaving an estate of $3,055,000 consisting of real estate and personal property in Massachusetts of an aggregate value of $1,576,000 and of stocks and bonds of corporations organized under the laws of other states aggregating a value of $1,479,000. The total tax assessed against the inheritance of this estate amounted to $691,000, or 23 per cent. thereof, made up of federal taxes, $295,240; Massachusetts tax, $340,-435 and taxes of seventeen other states of $55,325. Without going further into the very interesting statistics contained in the article from which the above information was extracted, no stretch of the imagination is necessary to visualize the havoc caused to the corpus of the estate by the necessity of disposing of sufficient of the property to pay the taxes.

Very few citizens of wealth are sufficiently cognizant of the far reaching effect these estate and inheritance taxes have upon the fortune that has been amassed during their life time, and it would seem to devolve upon accountants to bring this matter to their attention.

It is possible that the accountant may be trespassing somewhat upon the preserves of the lawyers in this matter and it will behoove them to use great care in accumulating accurate and reliable information before attempting to give counsel upon the subject lest irreparable injury be done to the one to whom advice is given. How important is this is evidenced by the muddle in which a certain very large estate has been involved by a prominent law firm that is handling it. If eminent legal talent can err with respect to these matters, how much easier it would be for a poorly informed accountant to fall into error.

SUMMARY OF RECENT RULINGS

A husband and wife domiciled in California may each report one half of the community income in their separate returns. This is the subject matter of treasury decision No. 3568.
Income received by the members of the five civilized tribes of American Indians from tax exempt land is not taxable (T. D. 3570).

Suit against the government cannot be maintained to recover interest where the appellate court did not provide for such interest in its mandate (T. D. 3575).

Income received by foreign steamship lines from traffic originating in the United States is taxable (T. D. 3576).

The government has no lien on a taxpayer's property for taxes prior to a demand and has no priority before bankruptcy (court decision in re Baltimore Pearl Hominy Co.).

A number of decisions are published this month, all of considerable interest, but the one that seems to have precedence in importance is treasury decision 3556 embodying a court decision wherein it is held that:

"Where stockholders of a corporation organize a new corporation in another state and exchange their stock in the first corporation for stock in the new corporation on basis of one share for five and having obtained all the common stock of the old corporation its assets are transferred to the new corporation and the old corporation dissolved, income is realized by the stockholders to the extent that the stock received in the new corporation was greater in value than the cost of the stock of the old corporation."

To obtain the exact viewpoint of the court in this case it will be necessary to read this most interesting decision in its entirety.

TREASURY RULINGS
(T. D. 3548—February 9, 1924.)

Income tax—Act of October 3, 1913—Decision of Supreme Court.

1. INCOME—RELIGIOUS CORPORATIONS—EXEMPTION.

A religious corporation which receives income from the rent of real property, dividends from stock ownership in private corporations, and interest on money loaned is exempt from income tax under the provisions of section II (G) of the act of October 3, 1913, where all of the income is held and used for carrying on its work.

2. SAME.

Deriving income from the sale of wine, chocolate and other articles does not amount to engaging in trade where profit is a negligible factor, sales are not made to the public or in competition with others, and the articles are bought and supplied for use within the organization, either for religious purposes or incidental to the work carried on.

The following decision of the supreme court of the United States in the case of W. Trinidad, insular collector, v. Sagrada Orden de Predicadores, etc., is published for the information of internal-revenue officers and others concerned.

SUPREME COURT OF THE UNITED STATES. No. 53. October Term, 1923.

W. Trinidad, insular collector, v. Sagrada Orden de Predicadores, etc.

Writ of certiorari to the Supreme Court of the Philippine Islands.

(January 14, 1924.)

Mr. Justice Van Devanter delivered the opinion of the court:

This was an action to recover money paid under protest as a tax on income. The plaintiff prevailed in the Philippine courts, both trial and appellate (42 Phil. 397), and the case is here on certiorari (260 U. S. 711).

The tax was levied under paragraphs G (a) and M of section II of the act of October 3, 1913 (ch. 16, 38 Stat. 172, 180), requiring every corporation, not within defined exceptions, to pay an annual tax, computed at a specified rate, on its entire net income from all sources. The exceptions covered, among others, any corporation "organized and operated exclusively for religious,
charitable, scientific or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual."  The plaintiff insisted it was within this exception, and the Philippine courts so ruled.  

The case was heard on a stipulation stating:

That the plaintiff is a corporation so constituted under sections 154 to 164 of act No. 1459 of the Philippine commission, and is organized and operated for religious, benevolent, scientific and educational purposes in these islands and in its missions in China, Cochinchina and Japan, and that neither its net income nor part of its rents from whatever source it may come is applied to the benefit of any particular stockholder or individual, or of any of its members, and that no part of the whole or of some of its temporal properties belong to any of its members, who have no rights to the same, even in case of dissolution of the corporation.

That the dividends and interests or profits and expenses which appear in exhibit 1 of the defendant as the income of the plaintiff constitute the income derived from the investments of the capital of the plaintiff corporation, which was invested in the year 1913 nearly in the manner and form specified in exhibit 2 of the defendant, and that the rents appearing in exhibit 1 were derived from the properties which together with their valuations appear in exhibit 3 of the defendant.

The second paragraph of the stipulation is rather obscure, and the exhibits are in a very condensed form, but all are elucidated by the opinions below and the briefs here.  They mean, when read with these aids, that the plaintiff has large properties in the Philippines, consisting of real estate, stocks in private corporations, and money loaned at interest, all of which are held and used as sources from which to obtain funds or revenue for carrying on its religious, charitable, and educational work; that the bulk of its income consists of rents, dividends, and interest derived from these properties; that the rest of its income is relatively small and comes from alms for mass, profits from occasional sales of some of its stocks, and sums received, in excess of cost, for wine, chocolate, and other articles purchased and supplied for use in its churches, missions, parsonages, schools, and other subordinate agencies.  The proportions in which these several items contributed to its income for the year covered by the tax in question are shown in the margin.1

The defendant concedes that the plaintiff is organized and operated for religious, charitable, and educational purposes and that no part of its net income inures to the benefit of any stockholder or individual, but contends that it is not "operated exclusively" for those purposes, and therefore is not within the exception in the taxing act.  Stated in another way, the contention is that the plaintiff is operated also for business and commercial purposes in that it uses its properties to produce income, and trades in wine, chocolate, and other articles.  In effect, the contention puts aside as immaterial the fact that the income from the properties is devoted exclusively to religious, charitable, and educational purposes, and also the fact that the limited trading, if it can be called such, is purely incidental to the pursuit of those purposes and is in no sense a distinct or external venture.

Whether the contention is well taken turns primarily on the meaning of the excepting clause, before quoted from the taxing act.  Two matters apparent on the face of the clause go far towards settling its meaning.  First, it recognizes that a corporation may be organized and operated exclusively for religious, charitable, scientific or educational purposes, and yet have a net income.

---

1Rents ................................................................. 90,092.70
Dividends ............................................................... 90,495.54
Interest ................................................................. 5,239.19
Sale of stocks ......................................................... 220.80
Sale of wine ........................................................... 2,711.15
Sale of chocolate ..................................................... 3,219.21
Sale of other articles ................................................. 7,249.10

................................................................. 6475.90

254,702.59

375
Next, it says nothing about the source of the income, but makes the destination the ultimate test of exemption.

Evidently the exemption is made in recognition of the benefit which the public derives from corporate activities of the class named, and is intended to aid them when not conducted for private gain. Such activities cannot be carried on without money; and it is common knowledge that they are largely carried on with income received from properties dedicated to their pursuit. This is particularly true of many charitable, scientific and educational corporations and is measurably true of some religious corporations. Making such properties productive to the end that the income may be thus used does not alter or enlarge the purposes for which the corporation is created and conducted. This is recognized in University v. People (99 U.S. 309, 324) where this court said: "The purpose of a college or university is to give youth an education. The money which comes from the sale or rent of land dedicated to that object aids this purpose. Land so held and leased is held for school purposes, in the fullest and clearest sense." To the same effect is Methodist Episcopal Church, South v. Hinton (92 Tenn. 188, 200). And in our opinion the excepting clause, taken according to its letter and spirit, proceeds on this view of the subject.

The plaintiff, being a corporation sole, has no stockholders. It is the legal representative of an ancient religious order the members of which have, among other vows, that of poverty. According to the Philippine law under which it is created, all of its properties are held for religious, charitable and educational purposes; and according to the facts stipulated and applies to those purposes all of the income—rents, dividends and interest—from such properties. In using the properties to produce the income, it therefore is adhering to and advancing those purposes, and not stepping aside from them or engaging in a business pursuit.

As respects the transactions in wine, chocolate and other articles, we think they do not amount to engaging in trade in any proper sense of the term. It is not claimed that there is any selling to the public or in competition with others. The articles are merely bought and supplied for use within the plaintiff's own organization and agencies—some of them for strictly religious use and the others for uses which are purely incidental to the work which the plaintiff is carrying on. That the transactions yield some profit is in the circumstances a negligible factor. Financial gain is not the end to which they are directed.

Our conclusion is that the plaintiff is organized and operated exclusively for religious, charitable and educational purposes within the meaning of the excepting clause.

Judgment affirmed.

INTERNAL REVENUE
(T. D. 3550—February 13, 1924.)

Income tax—Time extensions for domestic corporations.

Extension of time until June 15, 1924, of the final date for filing returns of domestic corporations, form 1120 for the calendar year 1923, and form 1120 A for the fiscal year ended January 31, 1924, and the fiscal year ending February 29, 1924.

Under the authority of section 227 of the revenue act of 1921, a general extension of time is hereby granted domestic corporations up to and including June 15, 1924, for completing returns of income for the calendar year 1923, the fiscal year ended January 31, 1924, and the fiscal year ending February 29, 1924, conditional upon the filing of tentative returns with the proper collector of internal revenue on or before March 15, April 15, and May 15, 1924, respectively, accompanied with at least one-fourth of the estimated amount of tax due together with a statement setting forth the reason why the return can not be completed within the prescribed time, and a formal request for the extension. Tentative returns submitted in accordance with the foregoing should be on form 1120 for the calendar year, and on form 1120 A for a fiscal year, on which should be written plainly across the face "Tentative return." Only the name
and address of the corporation and the estimated amount, if any, of the tax due need be stated.

Any deficiency in the first installment as determined upon submission of the final return will bear interest at the rate of 6 per cent. per annum from March 15, April 15, or May 15, 1924, respectively.

(T. D. 3552—February 18, 1924.)

Income-tax—Suit to restrain collection of tax—Decision of court.

1. Injunction—Distraint—Section 3224, R. S.

Under the provisions of section 3224, revised statutes, injunction will not lie to restrain a collector from the collection by distraint of a federal tax.

2. Same—Remedy at law.

An allegation that distraint is a "suit or proceeding" and is barred after five years from the filing of a return by section 250 (d) of the revenue act of 1921 does not give a federal court jurisdiction to restrain a collector, there being an adequate remedy at law by paying the tax and suing for its recovery.

3. Case Followed.


The appended decision of the United States circuit court of appeals for the fifth circuit in the case of M. J. Bashare v. Geo. C. Hopkins, collector, is published for the information of internal-revenue officers and others concerned.

UNITED STATES CIRCUIT COURT OF APPEALS, FIFTH CIRCUIT.


Appeal from the District Court of the United States for the Northern District of Texas.

(December 6, 1923.)

The appellant filed his bill in equity to enjoin the appellee, individually and as collector of internal revenue, from levying a distraint to collect the sum of $2,522.64, assessed against the appellant by the commissioner of internal revenue.

The bill avers that on April 1, 1918, the appellant filed with the collector of internal revenue an income-tax return for the year 1917 showing a total tax liability of $6,904.81, which he promptly paid; that on March 17, 1923, the commissioner of internal revenue notified the appellant that his total tax liability for the year 1917 was $2,522.64 in excess of his return, and that an assessment for taxes in the additional amount would be made; that such assessment was made, and thereafter, on April 2, 1923, the appellee made a written demand for payment; that the appellant is possessed of valuable property consisting chiefly of real estate, and also has on deposit in various banks the money necessary for the conduct of his business, for the maintenance of himself and family, and for the payment of his obligations; and that the appellee, unless enjoined, would seize the said bank accounts and appropriate the same to the satisfaction of the assessment for taxes.

The district court denied the application for an injunction, and upon appellee's motion dismissed the bill of complaint.

The bill does not aver that the assessment is incorrect, and it is a fair inference from the averments it does contain that the appellant is amply able to pay the amount which the government is seeking to collect. We are of opinion that the appellant has an adequate remedy at law, in that he may, after paying the amount of the assessment, sue the collector for its return. We take judicial notice that April 1, 1923, fell on Sunday. The list containing the assessment against the appellant was in the hands of the collector in Texas on Monday, April 2, 1923, and must, therefore, have been signed by the commissioner of internal revenue and mailed from Washington before the first day of that month. It thus appears that the assessment was made within the
statutory period of five years from the date of appellant's return which was filed April 1, 1918.

The bill is sought to be maintained upon the theory that under section 250 (d) of the revenue act of 1921 (42 Stat. 227) any proceeding for the collection of taxes for the year 1917 is barred because five years had elapsed since the appellant filed his return, and that revised statutes section 3224, which provides that "no suit for the purpose of restraining the assessment or collection of any tax shall be maintained in any court," is inapplicable. The supreme court has ruled directly against this position in Graham v. du Pont (262 U. S. 234). In that case the assessment was made after the expiration of the statutory period, but it was held nevertheless that injunction would not lie, because of section 3224. It is true in this case, as it was in the cited case, that under the act of March 4, 1923 (42 Stat. 1504), the complainant has two years after payment of the tax to bring suit to recover it back, in which suit he can raise any question affecting the validity of the assessment.

The order of the district court is affirmed.

(T. D. 3555—February 20, 1924.)

Income tax—Distribution from depletion or depreciation reserves.

Article 1546 of Regulations 62 amended.

Article 1546 of regulations 62 is hereby amended to read as follows:

Art. 1546. Distribution from depletion or depreciation reserves.—A reserve set up out of gross income by a corporation and maintained for the purpose of making good any loss of capital assets on account of depletion or depreciation is not a part of surplus out of which ordinary dividends may be paid. A distribution made from a depletion or depreciation reserve based upon the cost of the property will not be considered as having been paid out of earnings or profits, but the amount thereof shall be applied against and reduce the cost, or other basis, of the stock upon which declared for the purpose of determining the gain or loss from the subsequent sale of the stock. A distribution made from that portion of a depletion reserve based upon a valuation as of March 1, 1913, which is in excess of the depletion reserve based upon cost, will not be considered as having been paid out of earnings or profits, but the distributee shall not be allowed as a deduction from gross income any loss sustained from the sale or other disposition of his stock or shares unless, and then only to the extent that, the basis provided in section 202 exceeds the sum of (1) the amount realized from the sale or other disposition of such stock or shares, and (2) the aggregate amount of such distributions received by him thereon. No distribution, however, can be made from such a reserve until all the earnings or profits of the corporation have first been distributed. Dividends declared out of a depletion reserve based upon discovery value to the extent that such reserve represents the excess of the discovery value over cost or March 1, 1913, value, are, when received by the stockholders, taxable as ordinary dividends.

(T. D. 3556—February 20, 1924.)


1. Income—Stock Distribution—Exchange of Stock for Stock.

Where stockholders of a corporation organize a new corporation in another state and exchange their stock in the first corporation for stock in the new corporation on the basis of one share for five, and having obtained all the common stock of the old corporation its assets are transferred to the new corporation and the old corporation dissolved, income is realized by the stockholders to the extent that the stock received in the new corporation was greater in value than the cost of the stock of the old corporation.


Where a new corporation was formed by the stockholders of an old corporation, under the laws of another state and with a larger authorized capitalization,
Income-tax Department

3. Cases Followed.


The following decision of the United States court of claims, in the case of Walter L. Marr v. United States, is published for the information of internal-revenue officers and others concerned:

COURT OF CLAIMS OF THE UNITED STATES. No. C-12.

Walter L. Marr v. United States.

(Decided November 21, 1923.)

This case having been heard and submitted upon stipulation of facts signed by Assistant Attorney General Robert H. Lovett on behalf of the United States, and by Messrs. Williams and Frierson, attorneys for the plaintiff, on behalf of the plaintiff, the court, upon the said stipulation, makes the following

FINDINGS OF FACT

I

During the year 1916 the plaintiff, W. L. Marr, and his wife were residents of the state of Michigan. At the proper time they made a joint income-tax return and paid the taxes shown by said return to be due to the collector of internal revenue at Detroit.

II

On March 19, 1921, the plaintiff was notified that the commissioner of internal revenue had made an additional assessment against him for the year 1916 of $23,098.40 and payment of the same was demanded. The plaintiff filed with the commissioner of internal revenue a claim in abatement. On December 29, 1921, he was notified that this claim had been rejected and disallowed. The plaintiff having then become a resident of Tennessee, the assessment was sent to the collector of internal revenue at Nashville for collection and demand was made of plaintiff for the payment of said assessment with interest, aggregating $24,944.12, which amount he paid, under protest, on January 7, 1922.

Plaintiff then made his appeal to the commissioner of internal revenue according to the provisions of the law and the regulations of the secretary of the treasury by filing a claim for the refund of said taxes and interest upon the grounds set out in the petition in this cause. This claim, after consideration by the commissioner, has been refused and disallowed.

III

Said assessments were arrived at by adding to the net income shown by the original return the sum of $324,466.57, upon the ground that that much income had been derived when, in 1916, plaintiff and his wife received 451 shares of the preferred and 2,125 shares of the common stock of General Motors Corporation, a corporation organized under the laws of Delaware and hereinafter called the Delaware corporation, and $100 in cash in exchange for 339 shares of the preferred and 425 shares of the common stock of the General Motors Co., a corporation existing under the laws of New Jersey and hereinafter called the New Jersey corporation. The market value of the stock of the Delaware corporation so received was preferred $94,687.5 and common $168.50 per share, making the total market value of the shares received $400,766.57, and adding the $100 received in cash makes the total value received $400,866.57. The shares of the New Jersey corporation had been acquired at par, or a total cost of $76,400. The difference between these amounts was treated as income, and this resulted in the assessment as made.

379
The transaction culminating in said exchange of stock was as follows:

1. The New Jersey corporation had outstanding $15,000,000 of 7 per cent. preferred stock and $15,000,000 of common stock of the par value of $100 per share. It had accumulated a large surplus, and the actual value of its common stock was, at the date of the exchange, $842.50 per share.

2. In 1916 the officers of the New Jersey corporation caused the Delaware corporation to be organized for the purpose of taking over and continuing the business of the New Jersey corporation. The authorized capital of the Delaware corporation was $82,600,000 of common and $20,000,000 of nonvoting preferred stock.

3. The plan by which the Delaware corporation proposed to take over and continue the business of the New Jersey corporation was set forth in a letter addressed by 11 of the directors of the New Jersey corporation to its stockholders, which letter was as follows:

**General Motors Company,**


*To the Stockholders of General Motors Co.:

The undersigned members of the board of directors of your company, pursuant to the request of their associate directors and of shareholders representing upwards of 70 per cent. of the outstanding stock of the company present for your favorable consideration the following plan, the adoption of which in their opinion will afford the present stockholders of the company a more liquid and satisfactory investment and eventually will lead to economies in administration to the benefit of all shareholders.

General Motors Corporation has been organized under the laws of Delaware, with an authorized capital stock of $102,600,000, of which $82,600,000 is common stock and $20,000,000 is nonvoting preferred stock. The shares are of the par value of $100 each. The preferred stock is entitled to receive cumulative dividends at the rate of 6 per cent. per annum, and is subject to redemption, at the option of the company, at $110 a share on November 1, 1918, or on any subsequent dividend-paying date. In the event of dissolution the preferred stock is preferred as to assets to the extent of its par value and accrued dividends.

General Motors Corporation of Delaware offers to the shareholders of General Motors Co. of New Jersey the privilege of exchanging their shares of stock for shares of the Delaware corporation on the following basis:

(a) One and one-third (1 1/3) shares of preferred stock of the Delaware corporation for one (1) share of preferred stock of the New Jersey company.

(b) Five (5) shares of common stock of the Delaware corporation for one (1) share of common stock of the New Jersey company.

(Certificates for fractional shares will not be issued, but, in place thereof, the Delaware corporation will pay in cash at the rate of $100 a share for its preferred stock and $150 a share for its common stock.)

Every stockholder of General Motors Co. is extended the same privilege of exchange and on the same basis as has already been accepted by shareholders representing upward of 70 per cent. of the outstanding stock of General Motors Co.

The plan is to become effective as of November 1, 1916, and all exchanges of stock under this offer will be made as of that date. Stockholders of the New Jersey company of record at the close of business October 14, 1916, will thus receive the dividend payable thereon by that company November 1, 1916. Dividends upon the preferred and common stock of the Delaware corporation will be computed from November 1, 1916, upon all of its stock issued and exchanged within the period hereinafter fixed for effecting such exchange.

Deposits for exchange are to be made with the Guaranty Trust Co. of New York, No. 140 Broadway, New York City, between October 16, 1916, and December 15, 1916, both dates inclusive. Upon the deposit of your certificates of stock of General Motors Co. of New Jersey, duly indorsed in blank (with New York,
Income-tax Department

York State stock transfer tax stamps attached at the rate of 2 cents per share, or accompanied by an equivalent amount of cash) the Guaranty Trust Co. will immediately cause to be issued and forwarded to you temporary certificates (pending the engraving of permanent certificates) for shares of stock of General Motors Corporation of Delaware, in accordance with the foregoing offer.

A form of acceptance of this offer to accompany your certificate of stock and to be signed by you is herewith inclosed, together with a stamped envelope addressed to the Guaranty Trust Co. of New York.

Yours truly,
A. H. Wiggin, J. H. McClement,
C. H. Sabin, J. J. Raskob,
L. G. Kaufman, F. L. Belin,
P. S. duPont, A. G. Bishop,
W. S. Leland, W. C. Durant.
C. S. Mott,

(4) This offer was accepted by all the holders of common stock, and $75,- 000,000 of the authorized $82,600,000 common stock of the Delaware corporation was issued in exchange for the $15,000,000 of outstanding stock of the New Jersey corporation.

The holders of all the preferred stock of the New Jersey corporation, except the holders of a few shares, also accepted the offer. The few shares mentioned were paid off or redeemed in cash and retired. In exchange for the shares of those who accepted the offer the Delaware corporation issued its own 6% preferred stock at the rate of one and a third shares for one. But all fractional shares to which stockholders were thus entitled were paid in cash as provided in offer above set out.

The remaining $7,600,000 of the authorized common stock of the Delaware corporation and such parts of its authorized $20,000,000 of preferred stock as was not thus issued in exchange for preferred stock of the New Jersey corporation, were either sold or held for sale as additional capital should be desired.

(5) The Delaware corporation having thus become the owner of all the outstanding stock of the New Jersey corporation caused the latter to be dissolved and all its assets and liabilities to be transferred to the Delaware corporation.

(6) The Delaware corporation continued the business of the New Jersey corporation. It had no assets except those transferred from the New Jersey corporation and such cash as had been realized by the sale of its own stock not used in acquiring the stock of the New Jersey corporation. And its liabilities were only those which had been the liabilities of the New Jersey corporation.

V

The plaintiff and his wife accepted the offer.
He had 15 shares of common and 11 shares of preferred stock of the New Jersey corporation. He received in exchange 75 shares of the common and 14 shares of the preferred stock of the Delaware corporation and $66.67 in cash.

His wife had 410 shares of the common and 328 shares of the preferred stock of the New Jersey corporation. She received in exchange 2,050 shares of the common and 437 shares of the preferred stock of the Delaware corporation, and $33.33 in cash.

VI

The plaintiff is a citizen of the United States and resides in Hamilton county in the state of Tennessee, has at all times borne true allegiance to the government and has not aided, abetted, or given comfort to any enemy of the United States. He has not transferred or assigned the claim sued on or any part of it and no action has been taken on it except as stated in the petition.

CONCLUSION OF LAW

Upon the foregoing findings of fact the court decides, as a conclusion of law, that the plaintiff is not entitled to recover, and his petition is therefore dismissed.
Judgment is rendered against plaintiff for the cost of printing the record in this cause, the amount thereof to be entered by the clerk and collected by him according to law.

MEMORANDUM

The plaintiff exchanged stock in the New Jersey corporation for stock in the Delaware corporation on the basis of five shares for one. Preferred stock was exchanged on a different basis, but all of the preferred stock was not exchanged, and holders of that kind who declined to make the proposed exchange were paid in cash for their preferred stock. Having acquired all of the stock in the New Jersey corporation, the Delaware corporation caused all of the former's assets and liabilities to be transferred to itself and the New Jersey corporation to be dissolved.

The Delaware corporation had $82,600,000 of common stock and used $75,000,000 of it in acquiring the outstanding stock in the New Jersey corporation. It sold and realized cash for some of its stock in excess of that involved in the exchange. It thus had after the transfer all of the property the New Jersey corporation owned and some cash, realized, as stated, from its treasury stock.

Plainly the transactions involved two distinct entities, organized under the laws of different states, with different powers, and with different capital. Plaintiff exchanged his stock in one of these entities for stock in the other. This was an exchange of property.

When the exchange became effective we think that the plaintiff "in a legal sense realized his gain."—Cullinan v. Walker (262 U. S. 134) [T. D. 3508]; Phellis case (257 U. S. 156) [T. D. 3270]; Rockefeller case (257 U. S. 176) [T. D. 3271].

(T. D. 3557—February 20, 1924.)

Income tax—Distribution from depletion or depreciation reserves.

Article 1549 of Regulations 45, as amended by T. D. 3206, further amended. Article 1549 of regulations 45 (1920 edition), as amended by T. D. 3206, is hereby further amended to read as follows:

ART. 1549. Distribution from depletion or depreciation reserve.—A reserve set up out of gross income by a corporation and maintained for the purpose of making good any loss of capital assets on account of depletion or depreciation is not a part of its surplus out of which ordinary dividends may be paid. A distribution made from such a reserve will be considered a liquidating dividend and will constitute income to a stockholder to the extent that the amount so received is in excess of the cost of his shares of stock. If such stock were acquired prior to March 1, 1913, and the fair market value as of such date was greater than the cost thereof and less than the amount received, the income which is taxable is the excess over such market value of the amount received, but no gain is recognized if the amount received is more than the cost but less than the fair market value of the stock on March 1, 1913. No distribution, however, will be deemed to have been made from such a reserve except to the extent that the amount paid exceeds the surplus and undivided profits of the corporation. In general, any distribution made by the corporation other than out of earnings or profits accumulated since February 28, 1913, is to be regarded as a return to the stockholder of part of the capital represented by his shares of stock, and upon a subsequent sale of such stock his gain will be the excess of the selling price over the cost of the stock after applying on such cost the amount of such capital distribution. However, if such shares were acquired prior to March 1, 1913, and the fair market value as of such date was greater than the cost thereof after applying on such cost and value the amount of any such capital distribution, and was less than the sum received in distribution, the amount which is taxable is the excess over such value of the sum received in distribution. But no gain is recognized if the amount received is more than the cost but less than the fair market value of the stock on March 1, 1913, after the amount of any such capital distribution is applied to such cost and value. Dividends declared out of a depletion reserve based upon discovery value to the extent that such reserve
represents the excess of the discovery value over cost or March 1, 1913 value, are, when received by the stockholders, taxable at ordinary dividends.

(T. D. 3558—February 25, 1924.)

Income tax.

Returns of information for calendar year 1923 required with respect to payments of dividends made by corporations to individuals, partnerships, and fiduciaries.

Section 254 of the revenue act of 1921 provides that every corporation subject to income tax and every personal-service corporation shall, when required by the commissioner, render a correct return, duly verified under oath, of its payments of dividends, stating the name and address of each stockholder, the number of shares owned by him, and the amount of dividends paid to him.

Article 1060 of regulations 82 provides that when directed by the commissioner, either specially or by general regulation, every domestic or resident foreign corporation and every personal-service corporation shall render a return on form 1097 of its payments of dividends and distributions to stockholders.

In accordance with the foregoing all domestic corporations not specifically exempted from taxation are hereby directed to file returns of information on form 1097 showing the amount of payments of dividends and distributions to stockholders who are individuals, fiduciaries, or partnerships. Returns of information will also be required of resident foreign corporations to the extent that dividend payments and distributions are made to citizens or residents of the United States and domestic partnerships and fiduciaries. These returns shall be filed not later than March 15, 1924, and shall cover all such payments made during the calendar year 1923.
Students' Department

EDITED BY H. A. FINNEY

American Institute of Accountants Examination

[The following answers to examination questions are not official in any way. They represent merely the personal opinion of their author. They have not been approved by the board of examiners of the institute.]

EXAMINATION IN COMMERCIAL LAW

November 16, 1923

Negotiable Instruments

Answer three of the following four questions:

No. 1. B signed a promissory note in blank, leaving it on his desk. During B’s absence from his desk, A took the note, filled it in for two hundred dollars and sold it for value to C, who knew nothing about the method by which A came into possession of the note. Could C recover on the note from B?

Answer:

C cannot recover from B. While the rule as to a holder in due course is that a valid delivery of the instrument is conclusively presumed, this rule applies only to the case of a completed instrument. The note signed by B was incomplete and is therefore subject to the rule laid down in section 15 of the negotiable instrument law which reads: “Where an incomplete instrument has not been delivered it will not, if completed and negotiated, without authority, be a valid contract in the hands of any holder, as against any person whose signature was placed thereon before delivery.”

No. 2. Y gave X a cheque for fifteen hundred dollars in payment of a debt. The cheque was drawn on the Union Trust Company. X had the cheque certified by the Union Trust Company. On the following day, when X was about to deposit the cheque in his own bank, X learned that the Union Trust Company had failed at the opening of business that morning. X then claimed that Y must make good for the cheque. Was X correct in this contention?

Answer:

X’s contention is incorrect and Y is not liable on the cheque. The rule applicable is set out in section 188 of the negotiable instrument law which provides as follows: “Where the holder of a cheque procures it to be accepted or certified, the drawer and all endorsers are discharged from liability thereon.”

The reason of the rule is that X could have secured payment of the cheque from the drawee bank when he had it certified, the bank being then solvent.

No. 3. Define (a) an inland bill of exchange; (b) a foreign bill of exchange. In what circumstances does the determination as to whether a bill of exchange is inland or foreign become a vital point?

* Answered by John C. Teevan, instructor in business law, Northwestern University school of commerce.
Answer:

(a) An inland bill of exchange is a bill which is, or on its face purports to be, both drawn and payable within a given state or country. 
(b) A bill drawn in one state or country and payable in another is a foreign bill. The distinction is important with regard to the matter of protest. When a foreign bill is dishonored either by non-acceptance or non-payment it must be duly protested. If not, the drawer and endorsers are discharged. Protest is unnecessary in the case of dishonor of an inland bill.

No. 4. Name three kinds of endorsement, give an example of each and explain the effect of each.

Answer:

(1) Blank; (2) special; (3) qualified.
  Blank endorsement: John Doe.
  Qualified endorsement—blank: Without recourse, John Doe.

The effect as to further negotiation is as follows: An instrument endorsed in blank, whether qualified or unqualified, is payable to bearer and may be negotiated by delivery without further endorsement. In the case of a special endorsement, whether qualified or unqualified, the endorsement of the endorsee is necessary to the further negotiation of the instrument.

As to the effect of these endorsements with reference to the liability of the endorser, the rules are as follows: A qualified endorser, whether blank or special, warrants (1) that the instrument is genuine and in all respects what it purports to be; (2) that he has a good title to it; (3) that all prior parties had capacity to contract; (4) that he has no knowledge of any fact which would impair the validity of the instrument or render it valueless (section 65, negotiable instrument law). An unqualified endorser, whether blank or special, warrants (1) the capacity of all prior parties; (2) the genuineness of the instrument; (3) the genuineness of his title thereto; (4) that the instrument will not be dishonored by non-acceptance or non-payment; and engages that if for any of these reasons, or otherwise, the instrument is unpaid at maturity he will pay the amount thereof to the holder provided the proper steps are taken to charge him.

Contracts

Answer two of the following three questions:

No. 5. Chandler, owner of a chain of grocery stores in Cleveland, Ohio, sold his entire business to Davison. The contract of sale contained an agreement by Chandler not to engage in the grocery business for a period of ten years. Could Davison enforce the agreement mentioned? What would have been the effect if Chandler had agreed not to engage in the grocery business in Cleveland, Ohio, and vicinity for a period of ten years?

Answer:

Under the terms of this contract, Chandler is prevented from again engaging in the grocery business anywhere in the world. This contract is thus in general or unreasonable restraint of trade, and is therefore against public policy. It is therefore void and not binding on Chandler. In the first place, the proscribed
The Journal of Accountancy

territory is far greater than is reasonably necessary to protect Davison in the purchase of Chandler's business, and in the second place the public at large is deprived of the advantage of Chandler's enterprise, skill and capital. A restriction as to the city of Cleveland and vicinity would be reasonable, according to the above tests and would, therefore, be valid and binding.

No. 6. Under the statute of frauds, what contracts must be in writing?

Answer:

The fourth section includes five contracts, containing the following agreements or promises:

1. The promise of an executor or administrator to pay the debts of a decedent out of his own funds; 2. the promise of one person to become liable for the debt or default of another person; 3. an agreement made in consideration of marriage; 4. contracts for the sale of lands or any interest therein; 5. an agreement which cannot by its terms be performed within one year from the date thereof.

The seventeenth section (which is the fourth section in the uniform sales act) provides that in agreements for the sale of personal property of a certain price or upwards, there must be a writing signed by the party to be charged, unless there is some performance of the contract as payment of part or all of the purchase price or receipt and acceptance by the buyer of part or all of the goods.

No. 7. What is specific performance and when may it be granted?

Answer:

Specific performance is the remedy which a court of equity grants to the injured party to a contract, whereby the party violating the contract is required under the decree of court specifically to perform all his obligations thereunder in favor of the injured party. The theory underlying this remedy for breach of contract is that money damages would not be adequate compensation. This remedy is available in all cases of breach of contract where the subject matter is real estate. It applies to contracts involving personal property only in those comparatively few cases where the article has some rare, peculiar or historic value, as a patent right, shares of stock in a close corporation, a painting by an old master, etc.

Partnership

Answer one of the following two questions:

No. 8. A and B were copartners. They dissolved partnership, A retiring from the business and B continuing it. After the dissolution B continued to use the same offices, on the door of which A's name remained, and also continued to use the firm's stationery, of all of which A had knowledge. Many concerns not knowing of the dissolution sold goods, as they supposed, to the firm. Upon the insolvency of B they sought to hold A liable. Could they?

Answer:

In these circumstances A is liable to the same extent as if the partnership had never been dissolved. Where a partner withdraws from a firm those dealing with the firm are entitled to notice of such withdrawal. Furthermore, it is to the interest of the withdrawing partner to see that such notice is given. Otherwise former creditors, not knowing of the withdrawal, are entitled to assume
that the withdrawing partner is still a member of the firm, and to deal with the firm on the strength of his supposed membership therein. The general rule is that actual notice must be brought home to all persons having former dealings with the partnership, and that general notice should be given to the public through the medium of a newspaper of general circulation. As to creditors doing business with B subsequent to the dissolution, they are entitled, in the absence of knowledge of such dissolution, to assume by reason of the use of A's name on the door, stationery, etc., that A and B are copartners. Hence A's failure to give notice and to prevent the use of his name by B renders him liable as above stated.

No. 9. Weeks and Matthews formed a copartnership for a five-year term. Soon after they began business, Matthews found that Weeks was engaging in wild speculations, was almost continually in a drunken state and was generally so conducting himself as to cause the firm to lose its good name and reputation. Had Matthews any remedy?

*Answer:*

Where one partner is guilty of misconduct of a willful and serious nature, as that of Weeks in the present case, this becomes ground for a decree of dissolution. Matthews has the right to petition a court of equity for a decree of dissolution. The uniform partnership act, in section 32, restates the common law rule in the following language:

"On application by or for a partner the court shall decree the dissolution whenever . . . a partner has been guilty of such conduct as tends to affect prejudicially the carrying on of the business."

**Corporations**

*Answer the following two questions:*

No. 10. State generally the principal rights of a stockholder.

*Answer:*

The individual rights of a stockholder are: (1) to be notified of, participate in and vote at all stockholders' meetings; (2) to share pro rata in the profits; (3) to subscribe pro rata to any increase of capital stock; (4) on dissolution, to share pro rata in the remaining assets; (5) to inspect the corporate books and records; (6) to prevent ultra vires acts on the part of the corporation. His rights in a collective capacity are to participate in any action (1) to amend the charter; (2) to adopt, repeal or amend the by-laws; (3) to elect directors; (4) to sell the entire corporate assets; (5) to effect a dissolution of the corporation.

No. 11. A and B, upon the formation of a corporation, agreed to take certain shares of the corporation's stock. They paid one-fourth of the purchase price, that is, one-fourth of the par value of the stock which it was agreed should be purchased, but failed to make any further payments. The corporation, after conducting business became insolvent, and the creditors, finding that the corporation had no assets, sued A and B for the balance of the purchase price of the stock which they agreed to purchase. Did the creditors recover?

*Answer:*

Creditors of a corporation are entitled to assume that the capital stock has been paid for in full by the subscribers thereto. Where stock subscriptions are not paid in full, it is considered to be a species of fraud on the corporate credi-
tors. Hence A and B can be held by the creditors for such amount of the unpaid balance of their subscriptions as may be necessary to satisfy their claims. Before holding stockholders on their unpaid subscriptions, corporate creditors are usually required to reduce their claims against the insolvent corporation to a judgment, so as to remove any doubt as to the validity of their claims. In other words, they sue the stockholders in the capacity of judgment creditors of the corporation.

Bankruptcy

Answer the following question:

No. 12. What are the principal duties of a bankrupt under the bankruptcy law?

Answer:

Section 7 of the bankruptcy act sets out in detail the duties of a bankrupt, the most important being as follows:

1. To prepare and file (a) a sworn schedule of his assets, and (b) a sworn schedule of his creditors and amounts due them.
2. To attend the first meeting of creditors, if so directed, and submit to an examination concerning his business, the cause of bankruptcy, his dealings with creditors, the amount, nature and location of his property, etc.
3. To examine the correctness of all claims filed against the estate.
4. To execute and deliver such papers as shall be ordered by the court.
5. To execute to the trustee transfers of all his property in foreign countries.
6. To notify the trustee of any attempt by his creditors or other persons to evade the provisions of the bankruptcy act coming to his knowledge.
7. In case of any person having, to his knowledge, proved a false claim against the estate, to disclose such fact to the trustee.
8. To comply with all lawful orders of the court.

Income Tax

Answer the following question:

No. 13. What credits are allowed a domestic corporation against the corporation’s net income before computation of the income tax.

Answer:

(a) The amount received as interest upon obligations of the United States and bonds issued by the War Finance Corporation; (b) a credit of $2000 where the net income is $25,000 or less. It is provided, however, that the total tax is not to be in excess of (1) the tax payable if the $2,000 exemption were allowed plus (2) the net income in excess of $25,000. This latter provision is of advantage only to corporations whose net income in 1923 was no more than $25,250.

Dividend Paid in No-Par-Value Stock

Editor, Students’ Department:

SIR: I would greatly appreciate your recommendation on the handling of the following problem:
Students' Department

M Company shows on the balance-sheet at December 31st, the following items:

Assets. ........................................ $1,000,000

Liabilities:
7½% cumulative preferred capital stock—4,000 shares—
par value $100 ..................................... $ 400,000
Common stock (no par value) 8,000 shares ........ 80,000
Bonds ........................................... 400,000
Current liabilities ................................. 70,000
Surplus .......................................... 50,000

$1,000,000

There is an agreement with the bond underwriters to pay the first two years' dividends on preferred stock in common stock (no-par-value) in the ratio of one share of common for each share of preferred stock held. Dividend number one on preferred stock was payable December 31st. What entry should be made to record the issuance of 4,000 shares of common stock and the reduction of surplus for the payment of that dividend?

Permission was granted the corporation by the corporation commissioner for the issuance of 4,000 shares of common stock, with the stipulation that surplus should be reduced by an amount equivalent to the cash dividend which would have been paid under normal conditions, i.e., $28,000. Do you consider that requirement justifiable as determining the value of the 4,000 shares of common stock issued? If not, what transfer from surplus to common stock should be made to reflect the actual value thereof?

It would seem that unless surplus were reduced, continuous dividends might be declared on preferred stock, payable in common stock, and that consequently the preferred stock might also participate in cash dividends derived from the same surplus account, to the detriment of the common stockholders.

Yours truly

K. L. W.

San Francisco, California.

It would seem that the corporation commissioner is absolutely right in his ruling as to the valuation of the common stock issued as a dividend. Since the preferred stock is cumulative, the preferred stockholders have a right to an annual dividend of $28,000, and if in any year they receive a dividend of a smaller amount they have a right to receive the remainder in a subsequent year. If, therefore, the preferred stockholders accept common stock in satisfaction of their claims, the books should record the payment of a $28,000 dividend. Crediting the no-par-value capital stock account with any smaller amount would make it appear that the preferred stockholders had not received full payment of the dividend for the year and that they had claims payable in future years for dividends in arrears.

On the other hand, the mere fact that the 8,000 shares of common stock heretofore issued appear to have been issued for $10 a share is not an argument in favor of putting the new issue on the books at a $10 valuation. It is a well recognized principle of accounting that no-par-value stock should be placed on the books at the amount received for it, and in the application of this principle no violence is done to sound accounting by recording successive issues of no-par-value stock at different prices. It may perhaps be contended that nothing was received by the corporation for this stock; but acceptance of stock in

389
payment of a liability would seem to be comparable with the acceptance of stock in payment for assets, as a means of measuring the value of the stock.

Sinking Fund with Annual Instalments and Quarterly Interest Conversions

The August, 1923, Students' Department contains the following problem and solution, the problem being one of those in the May, 1923, institute examination:

No. 6. (a) What terminable annuity, payable quarterly for ten years, would be required to repay a loan of $32,840, the nominal rate of interest being 4 per cent. per annum?
   (b) What would be the required amount to set aside annually providing for a sinking fund to repay loan, as above, at the end of ten years instead of repaying it quarterly?
   Given \((1.01)^{40} = 1.4889\).

Solution:

(a) \$32,840 = present value of an annuity of unknown rents.
   The amount of \(1\) for 40 periods at 1% per period = 1.4889.
   \(1 + 1.4889 = .6716\) the present value of \(1\) due 40 periods hence.
   \(.6716 = .3284\) the compound discount.
   \(.3284 \div .01 = 32.84\) the present value of an annuity of \(1\).
   \$32,840 \div 32.84 = $1,000.00, the quarterly instalment to be paid.

(b) \(1.04 \times 1.04 = 1.0816\) amount of \(1\) at end of 2 years at 4%.
   \(1.0816 \times 1.0816 = 1.169859\) amount of \(1\) at end of 4 years at 4%.
   \(1.169859 \times 1.169859 = 1.368569\) amount of \(1\) at end of 8 years at 4%.
   \(1.368569 \times 1.0816 = 1.480244\) amount of \(1\) at end of 10 years at 4%.
   \(1.480244 - 1 = .480244\) compound interest on \(1\) for 10 years.
   \(.480244 \div .04 = 12.0061\) amount of annuity of \(1\) for 10 years.
   \$32,840.00 \div 12.0061 = $2,735.28 sinking-fund contribution to pay off principal.

The total annual payment each year by this method would be:

<table>
<thead>
<tr>
<th>Sinking-fund contribution</th>
<th>$2,735.28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest at 4% on $32,840.00</td>
<td>1,313.60</td>
</tr>
</tbody>
</table>

Total | $4,048.88 |

Exception to the solution to part (b) of this problem is taken by the president of one of the state boards, who maintains that the problem calls for quarterly interest conversions, and that my solution provides for annual interest conversions.

It is quite true that the solution reprinted above provides for annual interest conversions, but it does not seem as certain that the examiners intended the candidates to solve part (b) of the problem on the assumption that the sinking-fund interest would be compounded quarterly although the contributions to the fund were made annually.

Part (a) provides for the payment of the debt in quarterly instalments. This does not mean that a sinking fund is to be established, but that the quarterly payments are to be made directly to the creditor and that the principal of the debt is to be immediately reduced.

390
Part (b) is based on an entirely different premise. The full principal of the debt is to remain unpaid for ten years, and a sinking fund is to be created by annual instalments. Now it does not seem to follow that, merely because in one case a debt could be paid in quarterly instalments, in another case interest on annual sinking-fund instalments is to be compounded quarterly. Nor does the fact that the problem states the amount of $1 at 1 per cent. per period for 40 periods necessarily mean that the examiners intended both parts of the problem to be worked in such a way that this figure could be used. In fact, I am inclined to believe that the examiners may have wished to see whether the candidate would realize that the change in the facts in part (b) made it impossible to use the stated amount, 1.4889.

However, since it is possible that the examiners had in mind the suggested interpretation of the problem, rather than the interpretation on which the solution in the August issue was based, and also because the solution on the basis of the suggested interpretation furnishes a good illustration of the method to be applied when interest is converted at more frequent intervals than those at which instalments are paid, it seems desirable to publish a solution on the assumption that interest is to be computed quarterly.

While the nominal rate of interest would be 4 per cent. per annum, the effective rate would be 1 per cent. per quarter. It is then necessary to know the compound interest for 40 periods at 1 per cent. which is stated by the problem to be .4889. But it is also necessary to know the effective rate per annum, 4 per cent. being the nominal rate per annum. The effective rate is computed as follows:

\[
\begin{align*}
1.01 \times 1.01 &= 1.0201 \text{ amount of } 1 \text{ at end of } 2 \text{ periods.} \\
1.0201 \times 1.0201 &= 1.040604 \text{ amount of } 1 \text{ at end of } 4 \text{ periods.}
\end{align*}
\]

Then \(1.040604 - 1 = .040604\), the effective annual rate.

The problem may then be stated as follows: What contribution at the end of each of ten years, will provide a sinking fund of $32,840.00, if the fund earns interest at the rate of 4.0604% per annum?

\[
.4889 + .040604 = 12.04068 \text{ amount of annuity of } 10 \text{ payments of } 1 \text{ at } 4.0604\%.
\]

\[
\$32,840.00 \div 12.04068 = \$2,727.42.
\]

In addition to making this annual sinking fund instalment, it will also be necessary to pay the annual interest on the loan, or $1,313.60 (or four quarterly payments of interest aggregating this amount), making a total annual payment of $4,041.02.

**Goodwill, Minority Interest and Consolidated Surplus**

*Editor, Students' Department:*

Sir: "A" as a parent company owns 90 per cent of the stock in subsidiary "B." The stock was purchased for $150,000. At the time of purchase, the par value of the capital stock of "B" was $100,000, and the surplus amounted to $20,000. Will you please inform me as to how this would be shown in a consolidated balance-sheet?

Yours very truly,

F. W. A.

Oil City, Pa.
First, the goodwill. This is the excess of the purchase price of the stock over the book value of the stock acquired. The computation is made as follows:

Purchase price ................................................. $150,000
Less book value of stock acquired:
  90% of $100,000 capital stock ......................... $90,000
  90% of 20,000 surplus ............................... 18,000
  .................................................. 108,000

Goodwill ................................................. $  42,000

As the goodwill is the excess of the purchase price over the book value at acquisition, the goodwill in all subsequent balance-sheets will be the same (assuming that no subsequent stock purchases are made by the holding company), because subsequent transactions can not change either the purchase price or the book value at acquisition.

Second, the minority interest. This is 10 per cent. of the par value of the stock and 10 per cent. of the surplus of the subsidiary. At the date of purchase by the holding company, the minority interest would be:
  10% of stock ................................................. $10,000
  10% of surplus ............................................  2,000
  ..................................................  $12,000

The minority interest will change in each successive balance-sheet, because the subsidiary’s surplus will change.

Third, the surplus. This will be the amount of the holding company’s surplus plus 10% of the earnings of the subsidiary after the date of acquisition.

"Accrued Dividends"

Editor, Students' Department:

Sir: A question has arisen on which I would appreciate your opinion. A corporation has three kinds of capital stock, viz., common, first preferred and second preferred, the latter containing a clause whereby dividends are payable quarterly and if not so satisfied they become cumulative. The question at issue is whether or not it is proper from an accounting standpoint to set up as a liability the dividends that have accrued as a result of the cumulative feature but have not yet been declared by the board of directors.

The contention of some accountants upon this matter is that dividends not declared when cumulative should not be set up as a liability, because they have not been officially declared by the board of directors, but should, instead, be mentioned in some part of the auditor’s comments or in a footnote on the balance-sheet.

It is the contention of other accountants that when dividends are not declared they should, nevertheless, be set up as a liability, in view of the fact that the liability will ultimately materialize.

If the last contention is right, what could be done in the case where a corporation with cumulative preferred stock at the end of the dividend period has incurred an operating loss and, in addition, did not have a surplus?

Yours truly, 

H. H. M.

Detroit, Michigan.
Students' Department

The methods which may be used for showing so-called accrued dividends (which are not past due) are the same as those which may be used for showing dividends in arrears (which are past due). Incidentally, since dividends do not really accrue, it is unfortunate that there is not some more precise word available to indicate that a certain portion of the surplus (or of future profits) will be required for the payment of dividends in accordance with the provisions of the preferred-stock issue.

Neither accrued dividends nor cumulative dividends in arrears are a positive liability until they have been declared. Until that time they are only a contingent liability. If the corporation has a surplus equal to the amount of the dividends in arrears, the liability is contingent upon the declaration of the dividend by the directors. If the corporation has no surplus, the liability is contingent upon the earning of profits as well as on the declaration of the dividend. As long as the liability is merely contingent, it can not properly be shown as a positive liability.

However, the contingent liability should be shown either as a footnote on the balance-sheet or by a division of the surplus, in the following manner:

<table>
<thead>
<tr>
<th>Surplus:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Required for accrued dividends</td>
<td>XX,XXX.XX</td>
</tr>
<tr>
<td>Remainder</td>
<td>XXX,XXX.XX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX.XX</td>
</tr>
</tbody>
</table>

This method is of course not available if the company has a deficit, or if its surplus is smaller than the accrued dividends. In that case, the facts may be stated in a footnote.

PARTNERSHIP PROBLEM

Editor, Students' Department:

Sir: The following problem is submitted for solution:

On January 1, 1882, T. Herrdon, W. Newman and B. P. Dulin engaged in business. Herrdon was to furnish ¼ of the capital and receive ¼ of the gains; Newman and Dulin were each to furnish ¼ of the capital, and receive ¼ of the gains; interest at 10 per cent per annum was to be allowed on the excess, and charged on the deficiency of each partner's required investment.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>On January</td>
<td>1, 1882</td>
<td>Herrdon invested</td>
</tr>
<tr>
<td>On July</td>
<td>3, 1882</td>
<td>withdrew</td>
</tr>
<tr>
<td>On August</td>
<td>12, 1882</td>
<td>invested</td>
</tr>
<tr>
<td>On January</td>
<td>1, 1882</td>
<td>Newman invested</td>
</tr>
<tr>
<td>On July</td>
<td>3, 1882</td>
<td>withdrew</td>
</tr>
<tr>
<td>On January</td>
<td>1, 1882</td>
<td>Dulin invested</td>
</tr>
<tr>
<td>On March</td>
<td>15, 1882</td>
<td>invested</td>
</tr>
<tr>
<td>On May</td>
<td>1, 1882</td>
<td>withdrew</td>
</tr>
<tr>
<td>On June</td>
<td>18, 1882</td>
<td>invested</td>
</tr>
<tr>
<td>On September</td>
<td>1, 1882</td>
<td>withdrew</td>
</tr>
<tr>
<td>On</td>
<td>1, 1882</td>
<td>withdrew</td>
</tr>
</tbody>
</table>

The net gain during the year was $5,300. What was each partner's interest in the firm on January 1, 1883?

Yours truly,

I. L. B.

Macon, Georgia.

393
The Journal of Accountancy

Solution:
In order to determine the amount of the excess or deficiency of each partner’s capital, it is apparently necessary to reduce the partners’ accounts to a common basis by computing the average capitals, which is done as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Debits</th>
<th>Credits</th>
<th>Balances</th>
<th>Time</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herndon:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>1</td>
<td>$8,000</td>
<td>$8,000</td>
<td>183 days</td>
<td>$1,464,000</td>
</tr>
<tr>
<td>July</td>
<td>3</td>
<td>$3,000</td>
<td>5,000</td>
<td>40 “</td>
<td>200,000</td>
</tr>
<tr>
<td>August</td>
<td>12</td>
<td>6,000</td>
<td>11,000</td>
<td>142 “</td>
<td>1,562,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>365 “</td>
<td>$3,226,000</td>
</tr>
</tbody>
</table>

Average investment for the year = $3,226,000 ÷ 365 = $8,838.35.

Newman:
<table>
<thead>
<tr>
<th>Date</th>
<th>Debits</th>
<th>Credits</th>
<th>Balances</th>
<th>Time</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>1</td>
<td>$5,000</td>
<td>$5,000</td>
<td>183 days</td>
<td>$915,000</td>
</tr>
<tr>
<td>July</td>
<td>3</td>
<td>$800</td>
<td>4,200</td>
<td>182 &quot;</td>
<td>764,400</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>365 “</td>
<td>$1,679,400</td>
</tr>
</tbody>
</table>

Average investment for the year = $1,679,400 ÷ 365 = $4,601.10.

Dulin:
<table>
<thead>
<tr>
<th>Date</th>
<th>Debits</th>
<th>Credits</th>
<th>Balances</th>
<th>Time</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>1</td>
<td>$5,000</td>
<td>$5,000</td>
<td>73 days</td>
<td>$365,000</td>
</tr>
<tr>
<td>March</td>
<td>15</td>
<td>2,000</td>
<td>7,000</td>
<td>47 &quot;</td>
<td>329,000</td>
</tr>
<tr>
<td>May</td>
<td>1</td>
<td>$1,200</td>
<td>5,800</td>
<td>48 &quot;</td>
<td>278,400</td>
</tr>
<tr>
<td>June</td>
<td>18</td>
<td>1,500</td>
<td>7,300</td>
<td>75 &quot;</td>
<td>547,500</td>
</tr>
<tr>
<td>September</td>
<td>1</td>
<td>800</td>
<td>8,100</td>
<td>8 &quot;</td>
<td>64,800</td>
</tr>
<tr>
<td>September</td>
<td>9</td>
<td>500</td>
<td>7,600</td>
<td>114 &quot;</td>
<td>866,400</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>365 “</td>
<td>$2,451,100</td>
</tr>
</tbody>
</table>

Average investment for the year = $2,451,100 ÷ 365 = $6,715.34.

The next step is to compute the excess or deficiency of each partner’s capital over the agreed fraction and to compute the interest to be credited or charged to his account.

<table>
<thead>
<tr>
<th>Partner</th>
<th>investment</th>
<th>Fraction</th>
<th>Agreed Investment</th>
<th>Amount</th>
<th>Deficiency</th>
<th>Excess</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herndon</td>
<td>$8,838.35</td>
<td>3/7</td>
<td>$8,637.77</td>
<td>$200.58</td>
<td>$115.74</td>
<td>$115.74</td>
<td>$20.06</td>
<td></td>
</tr>
<tr>
<td>Newman</td>
<td>4,601.10</td>
<td>2/7</td>
<td>5,758.51</td>
<td>$1,157.41</td>
<td>956.83</td>
<td></td>
<td></td>
<td>95.68</td>
</tr>
<tr>
<td>Dulin</td>
<td>6,715.34</td>
<td>1/7</td>
<td>5,758.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$20,154.79</td>
<td>5/7</td>
<td>$20,154.79</td>
<td>$1,157.41</td>
<td>$1,157.41</td>
<td>$115.74</td>
<td>$115.74</td>
<td></td>
</tr>
</tbody>
</table>

STATEMENT OF CAPITALS

<table>
<thead>
<tr>
<th>Herndon</th>
<th>Newman</th>
<th>Dulin</th>
<th>Together</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitals, December 31, 1882, before closing</td>
<td>$11,000.00</td>
<td>$4,200.00</td>
<td>$7,600.00</td>
</tr>
<tr>
<td>Interest—debit or credit</td>
<td>20.06</td>
<td>115.74*</td>
<td>95.68</td>
</tr>
<tr>
<td>Net gain for the year</td>
<td>2,271.43</td>
<td>1,514.29</td>
<td>1,514.28</td>
</tr>
<tr>
<td>Capitals, December 31, 1882, after closing</td>
<td>$13,291.49</td>
<td>$5,598.55</td>
<td>$9,209.96</td>
</tr>
</tbody>
</table>

394
Current Literature

Compiled in the Library of the American Institute of Accountants

[Photostatic reproductions (white printing on a black background) of most of the articles listed in The Journal of Accountancy or Accountants' Index may be obtained from the library of the American Institute of Accountants, 135 Cedar Street, New York, at a rate of 25 cents a page (8½ in. x 11 in.) at 35 cents a page (11½ in. x 14 in.) plus postage. Members and Associates of the American Institute of Accountants are entitled to a discount of 20 per cent. Identify the article by author, title, name of periodical in which it appeared, date of publication and paging. Payment must accompany all orders.]

ACCOUNTANCY

Law


ACCOUNTANTS


ACCOUNTANTS' SOCIETIES


ACCOUNTING


Problems


AEROPLANES

Cost accounting


AMORTIZATION


AUDITING AND AUDITORS


BANKS AND BANKING, TRUST COMPANIES

Auditing


Cost accounting


BIBLIOGRAPHIES, INDEXES, CATALOGUES, ETC.


BOOKKEEPING


BRICKMAKING

Cost accounting


BUSINESS


COST AND FACTORY ACCOUNTING


Overhead


COSTS


CREDIT


DEFALCATION


396
DEPRECIATION, DEPLETION AND OBSOLESCENCE


Reed, W. B. *Should 1917 Depletion Be Permitted Mine Lessees?* Coal Review, March 12, 1924, p. 11, 32.


Hotels

Public Utilities

ELECTRIC AND STREET RAILROADS

Accounting
Reed, E. H. *Need for Greater Uniformity; Accountants Should Give Greater Consideration to a More Uniform System in the Classification of Sub-accounts Covering Electric Railway Operating Expenses.* AERA, December, 1923, p. 801-4.

EXAMINATIONS
C. P. A. Virginia

GAS
Valuation

GRAPHIC METHODS


HOTELS
Accounting

INVENTORIES

Stock Valuation. *Indian Accountant,* February, 1924, p. 35.


KNIT GOODS
Cost accounting
Current Literature

LIBRARIES

Opportunity for Library Research.  PACE STUDENT, April, 1924, p. 72.

LIFE TENANT AND REMAINDERMAN


LIQUIDATIONS AND RECEIVERSHIPS

Accounting


LIVESTOCK SHIPPING ASSOCIATIONS

Accounting


MACHINE SHOPS

Accounting


MOTOR BUSES

Accounting


MUNICIPAL

Accounting


Auditing


PARTNERSHIPS

Accounting


PATENTS, COPYRIGHTS, ETC.


POTTERY

Cost accounting


PRINTING

Cost accounting


PROFESSIONAL ETHICS

Rules of Professional Conduct Unanimously Adopted by the Society as an Amendment to the By-laws.  NEWS BULLETIN, NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS, March, 1924, p. 1-3.
PROFITS
Harper, J. Garnett. Gross Profit Percentage and How It Is Affected by Inde-

PROSPECTUSES
Auditor's Name in Prospectus. PUBLIC ACCOUNTANT, February, 1924, p.
229-30, 241-2.

PUBLIC UTILITIES
Cost accounting
Charlesworth, C. W. Operating Undertakings and Their Costs. COST AC-
Valuation
Bemis, Edward W. Some Present Aspects of Public Utility Appraisals.
MUNICIPAL ENGINEERING, October, 1923, p. 159-62.

RAILROADS
Accounting
Extensive Duties of Accounting Department. RAILWAY AGE, April 5, 1924,
p. 900.
Reports

REFRIGERATORS
Cost accounting
Rowley, A. W. Finding and Making Use of Factory Costs. INDUSTRIAL MANAGE-
MENT, April, 1924, p. 195-200.

RESTAURANTS, CAFES, ETC.
Costs

ROADS AND HIGHWAYS
Cost accounting
Thomas, G. Highways Cost Accounts. COST ACCOUNTANT, March, 1924,
p. 367-71.

SELLING
Witherspoon, J. J. Budgeting the Salesmen's Expenses. PRINTERS' INK MONTHLY, October, 1923, p. 41-2.

SHIPS AND SHIPPING
Accounting

SOCIETIES, CLUBS, ETC.
Accounting
Byrne, James A. Accounting System Suitable Use of a Club. PACE STUDENT, April, 1924, p. 66-70.

STANDARDIZATION
Burke, Thomas J. Association Cost Work and the Law. PAPER AND PULP

399
Current Literature


**STATEMENTS**

Financial

Stock
Capital
*Determination of Book Value of Capital Stock.* Pace Student, April, 1924, p. 65-6.

**STORES SYSTEMS AND STOCK RECORDS**


**TAXATION, SCOTLAND**


**TAXATION, UNITED STATES**

Income and excess profits


**TELEPHONE AND TELEGRAPH**

Cost accounting

**TIRES**

Cost accounting

**WAREHOUSES**

Cost accounting


**WOOL AND WORSTED**

Cost accounting

Depreciation Rates Given.

400
American Institute of Accountants

List of Officers, Members of Council and Committees—1923–24

OFFICERS

President ................. EDWARD E. GORE .......... 111 W. Monroe St., Chicago, Ill.
Vice-Presidents .......... FRANK LOWSON .......... 1319 F. St., N. W., Washington, D. C.
                        NORMAN E. WEBSTER .......... 111 Broadway, New York
Treasurer ............... ARTHUR W. TEELE .......... 120 Broadway, New York
Secretary ............... A. P. RICHARDSON .......... 135 Cedar St., New York

MEMBERS OF THE COUNCIL

For Five Years:

P. L. Billings .......... Iowa
James F. Farrell .......... New York
Lewis G. Fisher .......... Rhode Island
David L. Grey .......... Missouri
T. H. Lawrence .......... Colorado
Homer S. Pace .......... New York
W. A. Smith .......... Tennessee

For Four Years:

Elmer L. Hatter .......... Maryland
J. Edward Masters .......... Massachusetts
James S. Matteson .......... Minnesota
R. H. Montgomery .......... New York
Carl H. Nau .......... Ohio
John B. Niven .......... New Jersey
E. G. Shorrock .......... Washington

For Three Years:

Albert T. Bacon .......... Illinois
F. H. Hurdman .......... New York
J. E. Hutchinson .......... Texas
Clifford E. Iszard .......... Delaware
Walter Mucklow .......... Florida
John R. Ruckstell .......... California
W. R. Tolletth .......... Virginia

For Two Years:

John F. Forbes .......... California
J. Porter Joplin .......... Illinois
Waldron H. Rand .......... Massachusetts
Frederick A. Ross .......... New York
Frederic A. Tilton .......... Michigan
C. R. Whitworth .......... Illinois
William Jeffers Wilson .......... Pennsylvania

For One Year:

Overton S. Meldrum .......... Kentucky
George S. Olive .......... Indiana
Adam A. Ross .......... Pennsylvania
William C. Louisiana

BOARD OF EXAMINERS

For Three Years:

John F. Forbes .......... California
Charles E. Mather .......... New Jersey
Waldron H. Rand .......... Massachusetts

For Two Years:

Harold B. Atkins .......... New York
William B. Campbell .......... New York
A. S. Fedde .......... New York

For One Year:

Elmer L. Hatter .......... Maryland
John B. Niven, chairman .......... New Jersey
Ernest Reckitt .......... Illinois

AUDITORS

Will A. Clader .......... Pennsylvania
Raymond C. Reik .......... Maryland

EXECUTIVE COMMITTEE

The President, chairman .......... Illinois
The Treasurer .......... New York
L. G. Fisher .......... Rhode Island
F. H. Hurdman .......... New York
C. E. Iszard .......... Delaware
R. H. Montgomery .......... New York
F. A. Ross .......... New York

COMMITTEE ON PROFESSIONAL ETHICS

Carl H. Nau, chairman .......... Ohio
John F. Forbes .......... California
J. Porter Joplin .......... Illinois
J. E. Masters .......... Massachusetts
Adam A. Ross .......... Pennsylvania

When writing to advertisers kindly mention THE JOURNAL OF ACCOUNTANCY
Classified Advertisements

Copy for classified advertising must be in hand at the office of The Journal of Accountancy previous to the twentieth day of the month preceding month of publication. Rates are $5 per inch or fraction for one insertion; $7 per inch or fraction each additional insertion.

HELP WANTED

Help Wanted

Salaried positions $2,500 to $25,000 upward; executive, technical, administrative, engineering, manufacturing, professional, managing, financial, etc., all lines. If qualified, and receptive to tentative offers, you are invited to communicate in strict confidence with the undersigned, who will conduct preliminary negotiations. A method is provided through which you may receive overtures in confidence, without jeopardizing present connections, and in a manner conforming strictly to professional ethics. Established 1910. Send name and address only for preliminary particulars. No obligation. R. W. Bixby, Inc., 513 Lockwood Building, Buffalo, N. Y.

SITUATIONS WANTED

Accountant

Having nine years' experience, six years with structural iron works and three years as office manager, pulp and paper company. References furnished. Box 552, care of The Journal of Accountancy.

Accountant, 35

Many years' experience, good executive, capable and reliable, desires connection with large industrial concern. Prefers northern location but not essential. If interested address Box 551, care of The Journal of Accountancy.

Certified Public Accountant

By Institute examination 1921. Associate American Institute, member National Association Cost Accountants, degree in two states. Age 25, married. Last three years in partnership, desires position in United States or foreign country, or would consider partnership. Box 548, care of The Journal of Accountancy.

Certified Public Accountant


Editor of Reports, Manager, etc.

Certified Public Accountant, New York, invites correspondence with accountants, with a view to engagement, North Pacific or Pacific Coasts preferred, but not essential. Twenty (20) years' varied practical experience in the profession, constructive accounting, auditing and reporting, income-tax procedure, etc., university education, training with chartered accountants, good personality and executive ability, Protestant, highest references from certified public accountants and others, reply with particulars requested. Box 549, care of The Journal of Accountancy.

MISCELLANEOUS

Certified Public Accountant

In large southern city will sell interest in established practice or operate branch office for large firm. Address Box 554, care of The Journal of Accountancy.

Certified Public Accountant

With over three years' Federal tax experience, now established in Washington, D. C., will act as local representative for out of town firm of accountants or attorneys. Box 546, care of The Journal of Accountancy.

Certified Public Accountant

American Institute, University graduate, 25 years of age, desires connection with accounting firm offering opportunity. Would consider opening branch office in South or West for firm desiring to expand. Address Box 550, care of The Journal of Accountancy.

Certified Public Accountant

Accounting Practice for Sale

Established for five years in a prosperous Southern city of 14,000 population; 300,000 population within a radius of 100 miles. Owner is interested in other business, but will aid his successor in every way to obtain new business and retain the old. Will sell all or half interest to a reputable and well-qualified accountant. Box 545, care of The Journal of Accountancy.

The American Institute of Accountants

Library needs the following numbers of the ACCOUNTANT:  
July 12, 1919  
August 30, 1919  
September 6, 1919  
November 1, 1919  
Also pages 29-32 of the LAW REPORTS for Volume 63.  
Communicate with us before mailing

THE JOURNAL OF ACCOUNTANCY

Incorporated  
135 Cedar Street - New York

When writing to advertisers kindly mention THE JOURNAL OF ACCOUNTANCY.
Ward Quality

Loose-Leaf Devices

Accountants will find us able to meet every demand for any form of Loose-Leaf Books, Binders and Forms of the best quality. We offer you a wide choice in the selection of your Loose-Leaf Devices and are prepared to furnish specially printed and ruled forms suited to your particular needs.

LOOSE LEAF

Always in Stock

JOHN WARD & SON
Stationers and Printers
115 Cedar Street  112 Liberty Street
New York

ACCOUNTANTS — BOOKKEEPERS

Turn Your Spare Time into Money

You can count on a steady, growing income by installing our Loose Leaf Accounting Systems and Supplies. Also Special Ruled Forms, Manifold and Billing Blanks. Every business house a possible customer. Unlimited opportunity. No capital required or goods to buy. One of the largest loose-leaf plants in the East. Also exclusive territory with liberal drawing account to full time experienced men. Send for 150-page catalog and full details.

THE G. E. SHEPPARD CO.
264 Van Alst Ave.  Long Island City, N. Y.

USE a 2H Dixon’s Eldorado for sub-totaling. Its clear, sharp lines will save you precious minutes, both when the additions are made and later when you consult them for reference.

DIXON’S

ELDORADO

"the master drawing pencil"

SEND FOR FREE SAMPLES

Write for full-length free samples of DIXON’S ELDORADO and full-length free samples of Dixon’s “BEST” COLORED PENCILS. Both are supreme in their field.

JOSEPH DIXON CRUCIBLE COMPANY
Pencil Dept. 117-J, Jersey City, N. J.

Canadian Distributors:
A. R. MacDougall & Co., Ltd., Toronto

WHEN

You Have an Insurance or Bond Problem

CONSULT

STEPHEN H. ANGELL
89 MAIDEN LANE, NEW YORK
PHONE BEEKMAN 1100

Years of experience at Your Service FREE

When writing to advertisers kindly mention THE JOURNAL OF ACCOUNTANCY
Rock-solid—This Vannais Training

You men preparing now for C. P. A. examination need a broad, solid foundation such as is provided by Vannais training. Then you can go to the examination room with comfortable confidence.

Hundreds of men have won the coveted degree because they’ve let Vannais Training guide them.

VANNAIS TRAINING IS AVAILABLE FOR EITHER CORRESPONDENCE, OR SCHOOL INSTRUCTION. PLEASE STATE YOUR PREFERENCE BELOW.

Mail to

THE VANNAIS ACCOUNTING INSTITUTE, INC.
30 Asylum Street, Hartford, Connecticut

New York  Chicago  Minneapolis  San Francisco

VANNAIS TRAINING

VANNAIS ACCOUNTING INSTITUTE
30 Asylum Street, Hartford, Conn.

Please send me full information on Vannais Training. It is understood that this request does not obligate me in any way.

Name__________________________

Address

Business Position

I aspire to the C. P. A. degree YES □ NO □ Check one

When writing to advertisers kindly mention THE JOURNAL OF ACCOUNTANCY
INDEX

to
THE JOURNAL OF ACCOUNTANCY

Volumes XVII - XXXIV
January, 1914 — December, 1922

A complete index to the issues of The Journal of Accountancy for a nine-year period; a continuation of the Index published in 1914.

Approximately 200 pages, Journal size, bound in buff buckram with red morocco labels, to match the binding and style adopted by The Journal of Accountancy.

Orders should be placed at once. Price, delivered in the United States, Canada and Mexico, $2.50

THE JOURNAL OF ACCOUNTANCY, INCORPORATED
135 Cedar Street, New York

AMERICAN INSTITUTE OF ACCOUNTANTS

Examination Questions
June, 1917, to May, 1921, inclusive

In response to numerous requests for complete sets of examination questions of the American Institute of Accountants, all questions from the beginning of the Institute to and including examinations of May, 1921, have been bound in a compact and convenient volume for the use of accountants, instructors, students and others interested. It is contrary to the policy of the Board of Examiners to make known any of its official answers. The book contains simply the problems, questions, etc., and a complete subject index, which will be found of great service for quick reference.

Bound in cloth in a single volume 5¼ inches by 7¼ inches. On sale at $1.50 a copy at 135 Cedar Street, New York.
Accountancy students at Pace Institute acquire sound conceptions of business organization, of the methods of stating and analyzing financial facts, of accounting principles and procedures—they make adequate preparation to serve Modern Business as professional or executive accountants.

The Pace Course in Accountancy and Business Administration is given in Resident classes at Pace Institute—New York, Boston, Washington, and Newark. It is given also by Extension—through the mails.

One Month’s Trial Instruction $7

Enrolment may be made in the Extension Division of Pace Institute for a month’s trial instruction for $7. There is no obligation of any kind to continue. The work of each student is followed in an intimate, personal manner.

Write now for the Institute Bulletin, either Resident or Extension, and a copy of the helpful booklet, “Making Good.”

Pace Institute
30 Church Street, New York City

Tremont Temple
Boston, Mass.

Transportation
Building
Washington, D. C.

24 William St.
Newark, N. J.