1961

CPA-Banker Cooperation: A Manual of Suggested Activities for State CPA Societies and Chapters to Promote Cooperation with Bankers

American Institute of Certified Public Accountants (AICPA)

CPA-BANKER COOPERATION

American Institute of Certified Public Accountants
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A manual of suggested activities
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INTRODUCTION

(This introduction might be read aloud by the chairman at the first meeting of the committee on cooperation with bankers.)

Good relations between CPAs and bankers at the national level have been maintained for many years. One of the outstanding parts of this program has been a series of annual joint meetings of the Robert Morris Associates committee on cooperation with public accountants and the American Institute's committee on cooperation with bankers and other credit grantors. As bankers and CPAs learn to know each other better, they explore subjects about which there has been misunderstanding. Now every meeting provides an opportunity for a frank discussion of mutual problems.

As a result of these meetings, bankers who are active at the national level in the Robert Morris Associates have a much better understanding of the CPA's viewpoint. This viewpoint is often reflected in publications and other materials that reach the RMA membership. CPAs, on the other hand, have gained a better understanding of the bankers' point of view, as is attested by the profession's continuing effort to improve the effectiveness of CPA-banker cooperation. Joint meetings get the best results when both sides have the opportunity to express their views on how cooperation can be improved.

An Immediate Objective

While we feel that CPA-banker meetings have been successful, we know there are still many bankers who are not active in national affairs and who need to know the CPA's point of view. Among these are bank loan officers. Frequently they negotiate with borrowers and make loans without considering the auditor's report, even though the bank, as a matter of policy, requires the borrower to submit an audit report. It may not be until after the loan has been made that the report is referred to the credit department for review.

Bulletin #9 of the Institute's series on Economics of Accounting Practice, "Bankers' Attitudes Toward the CPA," provides a number of insights into the reasons for some bankers' disregard of the auditor's report and misunderstandings of the limitations of the auditor's report. The following is quoted from the bulletin to indicate the extent of bankers' misconceptions about the CPA's services:

> "Many bankers appear to be on excellent terms with the CPAs in their localities and display an extensive awareness of the services rendered by them. Frequently, however, the banker knows a relatively small number of CPAs--and some misconceptions about the work and responsibilities of CPAs persist even among the best informed. Some bankers accept a CPA's signature at face value regardless of the nature of the CPA's opinion; others expect his report to be precisely accurate in every detail; others

> regard the absence of an unqualified opinion as a reflection on the CPA's abilities; and still others complain of the lack of uniformity in accounting and auditing procedures without recognizing the acceptability of alternative procedures. These attitudes are hazardous -- for the CPA as well as the banker -- and ought to be corrected.
>
> "The bankers almost universally acknowledge the importance of independent audits for credit purposes, especially when large loans are involved or the prospective borrower is not known to the banker. Yet, banks vary widely in their requirements. Despite the overwhelming preference for unqualified opinions, only a small minority insist upon them as part of their regular procedure in evaluating a credit application. Many bankers who ordinarily request unqualified reports are apt to settle for less if the borrower raises objections."

Another group that needs immediate attention is bankers in communities where there are no formal CPA or banker organizations. Without the stimulus of meetings it is only natural that bankers and CPAs go their separate ways and therefore miss the benefits of the meetings regularly held in larger communities.

Some Aids to Cooperation

A great deal of preliminary work has been done to help prepare the way for local meetings. For example, the Institute has for many years distributed to all commercial banks in the country a geographical list of the accounting firms and individual practitioners represented in its membership. A number of state societies do this too.

In 1950, the Institute distributed to all commercial banks copies of the booklet "Audits by Certified Public Accountants," which was prepared primarily for the information of bankers and for use in bank staff training. In 1951 an article on Statement No. 23 was published in the March issue of The Journal of Accountancy. Reprints of this article, entitled "The CPA's Opinion," were also sent to bankers, and the article has been included in the curriculum of the graduate school of banking at Rutgers University.

Numerous articles dealing with the problems of CPAs and bankers have been written and published in periodicals read by bankers and CPAs. Each state society and chapter committee on CPA-banker cooperation should be alert for opportunities to place such articles.1/

"Figures for the Small Businessman" originally appeared in the Midwestern Banker. The article, written by Milton J. Drake, vice-president of the Detroit Bank, was so useful that reprints were distributed to bankers and to all members of the Institute. A new edition was published this year.

One booklet essential to CPA-banker discussions is

1/ "The Report on CPA-Banker Cooperation," surveying state CPA society activity, reveals that exchanges of articles were infrequent during the year ending May 31, 1959. This would seem an activity that CPA-banker cooperation committees should emphasize.

"40 Questions and Answers About Audit Reports," prepared by the Institute's committee on cooperation with bankers and other credit grantors. The pamphlet was distributed to banks when it was published in 1956. Its statement of objectives affords a clear idea of its value: "...to help explain the auditing standards observed, and some of the auditing procedures that may be employed by certified public accountants in forming an opinion on the presentation of financial position and results of operations in a company's financial statements" and "to emphasize the responsibilities assumed by the members of the accounting profession when they express an independent opinion on financial statements."

Steps the CPA Can Take

One project that CPA-banker cooperation committees should undertake is to see that all members of state societies and chapters are made aware -- through publications and through meeting discussions based on Economics of Accounting Practice Bulletin #9 -- of the following suggestions contained in the bulletin:

> 1. Club, church and civic activities provide an opportunity to get together with the banker outside the normal working situation.
>
> 2. Occasional luncheons appear to be effective. Some bank officers invite CPAs to lunch with their credit men to discuss generally their respective problems. There is no reason why the CPA could not take the initiative in this respect.
>
> 3. CPAs should make a continuing effort to get permission from their clients to discuss their affairs with the client's bankers. Similarly they should encourage the bankers to impress

upon their customers the need for closer CPA-banker contact.

4. Some firms make a point of telephoning the banker, when a client's statement is to be used for credit purposes, to offer further assistance if any explanations are desired.

5. Many banks have periodic meetings of their credit men and some CPAs have had the opportunity to attend or participate in them. More frequent invitations might result if the CPA makes himself available.

6. When specialists have been developed within a firm, the bankers should be made aware of their particular talents.

7. Occasional visits by the CPA with the local banker to discuss how well his reports have met the bank's needs and to explore other common problems are favored by many bankers.

8. Some CPAs take the initiative in bringing their clients and bankers together. One practice is to select several clients for individual meetings with their bankers during the "slack" season to discuss the client's specific financing problems and plans.

Since the CPA is, in a sense, the "middle-man" between client and credit grantor, he cannot expect the banker to make all the overtures. Meetings of CPAs and bankers will insure a continuing mutual understanding of objectives. This kit is designed to aid your committees in maintaining and improving the organized profession's relationship with bankers and other credit grantors. The spirit of this relationship has been admirably stated by Halsey Smith, president of the Casco Bank and Trust Co., Casco, Maine:

> "Together we can do much to insure a healthier business climate because close

teamwork between the accountant and the banker is really the keystone of good financial management."

Indeed, a CPA-banker cooperation committee could have no more timely proposal than the following, which Mr. Smith outlined in a speech to a meeting of accountants and bankers:

> "First, let's really start a definite schedule of joint workshops to better educate bankers and clients. These should involve discussion of all matters troubling bankers and accountants as to procedures, certificates and report detail. They should include familiarization with changes in accepted procedures that occur from time to time.
>
> "Second, I hope that all accountants will follow the same rules and principles in regard to the certificate. Standardization of treatment will greatly facilitate matters and result in far greater confidence and understanding by bankers...
>
> "Third, uphold your professional standards. Don't let the client force the accountant to a course that does not meet minimum requirements in (the accountant's) opinion, and if the client wants to impose limitations just remind him of their effects and be sure the limitations are reflected in the report.
>
> "Fourth, ...accountants and bankers should work more closely. Bankers want to help the accountant do the kind of job he wants to do for his client... Confidence developed through personal contacts will greatly improve (bankers') acceptance of the audit and (will) frequently assist in convincing the client of the wisdom of the program the accountant has proposed. Certainly (the bankers') better understanding of the client situation will result in better advice to the client."

By working toward these objectives, CPAs and credit grantors will better serve their clients. The banker's dual responsibility to depositors and borrowers is more effectively fulfilled when a CPA provides him with independently audited financial data. Thus the CPA's opinion serves not only the interests of the client but of the investing public.

Richard C. Lytle
Director of Technical Services
American Institute of Certified
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CPA-BANKER COOPERATION

The first step in establishing a regular meeting program of CPAs and bankers is for the president of the society, chairman of the committee on cooperation with bankers, and executive secretary to arrange a luncheon or dinner with representatives of Robert Morris Associates or the local banking association. The objectives of the meeting are to encourage the banking association to organize a committee on cooperation with CPAs if one does not already exist and to decide on a date and a program for the first joint meeting. It would be desirable to circularize each group, asking for suggestions for subjects to be discussed. Each meeting might be co-chairmaned by a CPA and a banker, or if a series of meetings is agreed upon, CPAs and bankers might alternate as chairmen.

Administering the Meetings

Suggestions for conducting meetings are given in the pamphlet "Planning Effective Meetings."[2/] The bibliography at the end of this manual and the enclosed pamphlets will be useful in helping speakers to prepare remarks. Certain of these pamphlets might also be distributed to the banker audience.

A Fundamental of the CPA-Banker Cooperation Program

"40 Questions and Answers About Audit Reports" should be the key document in a society or chapter's program. This booklet is a "conversation piece," not only for approaches to bankers, but also as a stimulus for meeting discussions. Although the Institute, Robert Morris Associates and American Bankers Association have distributed copies to members, there are many bankers--particularly loan officers and non-member CPAs--who have not had an opportunity to read the booklet carefully. And many of those who received it when it was first distributed in 1956 might profit from rereading it.

Using "Bankers' Attitudes Toward the CPA" for CPA-Banker Meetings

What is the need for CPA-banker cooperation programs? Personal interviews in depth, conducted among the chief commercial loan executives of one hundred banks by the credit

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2/ This is available from the Institute's state society department. To aid in obtaining news coverage of a banker committee's work a kit on "Press Publicity and How to Get It" may be obtained from the Institute's public relations department.

investigators on the staff of Dun and Bradstreet, have provided answers to this question. The survey revealed areas in which CPAs might improve their services and indicated that some bankers should acquire a better understanding of the environment in which the CPA works and the responsibilities that he can normally be expected to assume.

Bankers qualified their critical remarks by saying that their words apply to only a few CPAs--not to all or even most CPAs. Nonetheless, their observations might afford an objective analysis at CPA-banker meetings, as would all of Bulletin #9:[3]

> 1. The CPA has a too narrow view of his own function.
>
> 2. He forgets the needs of a bank for credit information and fails to supply sufficient detail, particularly in terms of comparative data for prior years.
>
> 3. He is often too preoccupied to offer a creative service to his clients--thus confirming a widely held belief that he is merely a "necessary evil" imposed on a business by interested outsiders.

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[3] Some members of state society and chapter CPA-banker cooperation committees no doubt subscribe to the series on Economics of Accounting Practice. Cost of Bulletin #9 is $3.50 per copy. A chairman of a CPA-banker cooperation committee might appoint a subcommittee to prepare a discussion-outline based on Bulletin #9. Appendix B of the Bulletin, which is the interview guide used by Dun and Bradstreet in making the survey, is a ready-made outline for small discussion-groups. Several subheadings selected at random suggest that the Bulletin would be a rich source of data of the "case-history" type, which is often an effective means of stimulating meeting-discussions: "Appraisal of CPA Reports," "The CPA's Role in Credit," "Procedures in Granting a Loan or Establishing Credit," "Size of Loan Requiring Audits."

4. He is not insistent enough in convincing his clients of the value of a "complete" audit which would justify an unqualified opinion.

5. He is sometimes inclined to sacrifice his objectivity to the wishes of his client.

The CPA, according to this Bulletin, is well regarded by a great majority of commercial loan executives--both as an individual and as a member of a highly respected profession. He is considered helpful by nearly all bankers--and essential by many--in the bank's lending operations. Bankers regard the CPA's reports, particularly if unqualified, as vital documents. They applaud the CPA's technical standards and respect his ethical values. They place great value on his role of financial counselor--though they suspect that his clients do not fully share their high opinion of him. They attribute a wide range of skills to him in the area of finance and control and sometimes assume that he is endowed with talents that the CPA himself is not prepared to claim.

Many of the problems that the Dun and Bradstreet survey revealed can be solved only by a long-term improvement in the relationship of the individual CPA to the bankers he deals with. However, a vigorous program of CPA-banker meetings at state and chapter levels is the best means of assuring that the individual CPA and banker will have the opportunity to know each other better and to study ways in which, through cooperation, they can better serve the business community.

Suggested Topics for Meetings with Bankers

The topics are classified into five categories. In many cases, references for background readings are listed. However, the Accountants' Index will suggest publications which would provide additional background information. If these publications are not available locally, they may be obtained through the Institute's library.

A. REPORTS AND REPORTING

"The Significance of Reports by CPAs." Financial statements reflect judgments as well as facts. (Audits by CPAs.)

"The Need for Unrestricted Audits."

"Disclosure of Long-Term Leases in Financial Statements." (Accounting Trends and Techniques, Accounting Research Bulletin No. 43.)

"Need for Comparative Financial Statements." Illustrate need for current comparative statements, and historical income and expense summaries for up to ten years preceding date of current statement.

"What Bankers Should Look for in The CPA's Report." (40 Questions and Answers.)

"The Misleading Cash Basis of Accounting." (Statement on Auditing Procedure No. 28, Special Reports.) Projected Institute booklet on special reports scheduled for 1960.

"More Useful Financial Reporting." (June 1959 Journal of Accountancy.)

"Reporting on Cash Basis Statements." (May 1959 Journal of Accountancy.)

B. AUDITING

"Why an Audit?" (RMA pamphlet, Financial Statements for Bank Credit Purposes, p. 3. 40 Questions and Answers, Audits by CPAs.)

"The Nature of Auditing by CPAs." (Audits by CPAs. Codification of Statements on Auditing Procedure.)

"The Significance of Tests in Audits." Review of internal controls.

"Recent Developments in Auditing." (June 1959 _Journal of Accountancy_, "Modern Methods"; _Statements on Auditing Procedure_ Nos. 27-9.)

"Auditing Inventories." (_Audits by CPAs_, _Codification of Statements on Auditing Procedure_.)

C. STANDARDS AND RESPONSIBILITIES

"CPA Standards and Responsibilities." (_Generally Accepted Auditing Standards_; _Codification of Statements on Auditing Procedure_.)

"The CPA's Responsibility in Short-Form and Long-Form Reports." (Statement on Auditing Procedure No. 27.)

"What Kinds of Opinions do CPAs Express Regarding Financial Statements?" (_40 Questions and Answers_.)

"Why a CPA Disclaims an Opinion." (_Generally Accepted Auditing Standards_, _Forty Questions and Answers_, _Codification of Statements on Auditing Procedure_.)

"What Does the CPA Mean by Generally Accepted Auditing Standards?"

"The Independent Auditor's Responsibilities for Events Which Occur After the Closing Date of the Financial Statement." (_Statement on Auditing Procedure_ No. 25.)

"Principles of Statement 23 as Incorporated in Ethics Rule No. 19."

"The CPA's Responsibility for Fraud Detection." (_Codification of Statements on Auditing Procedure_.)

"The CPA's Legal Responsibility to Investors and Creditors." (RMA Bulletins for June and July, 1959. _Accountants' Legal Responsibility_, by Saul Levy.)

"Evidence, Judgment, and the Auditor's Opinion." (April 1959 _Journal of Accountancy_.)

"Auditor's Responsibility in Corporate Reports." (March 1959 _Journal of Accountancy_.)

"Nature and Prevention of Fraud." (February 1959 _Journal of Accountancy_.)

"Clarification of Auditor's Responsibility." (August 1958 _Journal of Accountancy_.)

D. RELATIONS WITH BANKERS

"Banker and CPA Relations - the Challenge of Substandard Reports." (The California CPA, November 1958)

"The Advantages of Three-way Meetings: The Banker, the Client and the CPA." Bulletin #9, "Bankers' Attitudes Toward the CPA", of the Institute's series on Economics of Accounting Practice, pages 17-19. Details of audit: Audits by CPAs.

"Problems Confronting the CPA and Credit Grantor." (May 1959 The New York CPA.)

"The Banker and Reporting Standards." (May 1958 The New York CPA.)

E. TAXES

"Accelerated Depreciation - Taxes and Accounting." (ARB No. 44, Revised.)

"Balance Sheet Treatment of Deferred Tax Credits." (October 1959 Accounting Review, ARB No. 44, Revised.)

"Allocation of Income Taxes." (September 1958 and January 1959 Journal of Accountancy.)

"Tax Problems - Current Developments in Taxation."

F. GENERAL

"The Dangers of Accepting a Plain Paper Report."

"Fringe Benefits of an Audit."

"The Rules of Conduct of CPAs."

"The Use of the Completed Contract Methods vs. the Percentage of Completing Method in Contractor Accounting." (Generally Accepted Accounting Principles for Contractors.)

"Contractors' Accounting and/or Auditing."

"What the CPA Can Do to Help Small Business." (June 1959 Journal of Accountancy.)

"Fundamentals of Financial Analysis."

Statement of Objectives and Methods of a State CPA Society or Chapter Committee on Cooperation with Bankers and Other Credit Grantors

Objectives:

(1) To develop closer relationships between credit grantors and CPAs.

(2) To promote better understanding among credit grantors as to the services of CPAs and the significance of their reports.

(3) To inform CPAs as to the needs of credit grantors in regard to financial statements, and to make CPAs' reports on financial statements more useful to credit grantors.

(4) To provide liaison between credit grantor groups and other society (or chapter) committees.

(5) To communicate with the Institute's committee on cooperation with bankers and other credit grantors.

Methods:

(1) Joint meetings with representatives of the Robert Morris Associates and other organizations concerned with credit granting.

(2) Arrangement for publication of articles in bankers' and other credit grantors' magazines.

(3) Arrangement for speeches by accountants to credit grantors' organizations, and vice versa.

Reference:

Institute's kit on CPA-Banker Cooperation.

THREE MODEL PROJECTS IN CPA-BANKER COOPERATION

CASE HISTORY TYPE REPORT ON THIRD ANNUAL SEMINAR FOR BANKERS AND CERTIFIED PUBLIC ACCOUNTANTS

The Los Angeles Chapter of The California Society of Certified Public Accountants, in conjunction with the Robert Morris Associates and the University of Southern California, had conducted seminars for bankers and certified public accountants in 1953 and 1954. These seminars had consisted of four or five evening meetings with practically all of the time devoted to a lecture by a banker and a lecture by a certified public accountant with very little, if any, time for discussion. They had been quite successful as compared with any previous cooperative meetings between the bankers and CPAs. However, in the year 1955, it was quite obvious that there must be a new approach if the interest was to be maintained in these seminars. In years prior to these two seminars, our Society had maintained a Committee on Cooperation with Credit Grantors. However, each committee had met with limited success in developing any real spirit of cooperation between the two groups. It was obvious that there was a decided change in the relations between the two groups after the first seminar in 1953. Speaking in broad terms, the purpose of the Third Annual Seminar was to develop even a better spirit of cooperation between bankers and certified public accountants through exploring problems of mutual interest in financial reporting and granting of credit for the members of each group.

DEVELOPING SEMINAR PLANS

Meeting of subcommittee with Committee on Cooperation with Certified Public Accountants of the Los Angeles Chapter of the Robert Morris Associates

The chairman of your committee with two other members, making a subcommittee of three, carried on negotiations with the bankers' committee (consisting of the chairman and two other members) directed towards planning and implementing a third annual seminar. The first meeting was held on June 15. Many other meetings were held jointly by these two committees during the summer months for the purpose of planning a seminar.

Location and facilities for seminar

In the early stages of our planning, it was essential that we decide where the seminar should be held as well as the general type of seminar to be conducted. The decision was unanimous that the seminar should be conducted on a workshop type basis with a meeting in a general assembly room prior to disbursing to smaller workshop areas. It was agreed that the University of Southern California would be our first choice and that every effort should be made to obtain adequate facilities at this university. All members of the committee felt that something was to be gained from the atmosphere of a university campus. We found U.S.C. receptive to our petition for a large assembly room and four classrooms. They were allocated to us before the end of June and posted on the university schedule so that we knew we would have the rooms.

Type of meetings and selection of subjects

In the early stages of the planning, it was agreed that the seminar would be run on a "workshop" basis. Therefore, it was necessary to limit the attendance. It was agreed that 125 bankers and 125 CPAs would be an ideal attendance for each meeting. Plans were made for all participants to meet in general assembly to hear lectures, on the subject of the day from one banker and one CPA. After the lectures, the participants were to reassemble into five groups. It should be noted that we only had four classrooms assigned to us by the university. Therefore, we used the large assembly room (which seats over 335) for one of the workshop rooms. This gave the necessary flexibility that was required in order to be sure that we could accomodate all that would attend any particular meeting; i.e., any excess over planned attendance for the workshop period could be directed to the workshop held in the assembly room.

The next major problem of the joint committee was the selection of subject matter for the four meetings. We found that the bankers had suggestions as to subjects they would like to have the CPA's discuss and explain. We CPAs discovered that we could develop many subjects that we would like to have bankers discuss. In the early stages of the planning, we agreed that the questions and subjects discussed by each speaker at the general assembly meeting should be related in some manner to the general topic for the evening. In order to collect various ideas of what should be discussed, each CPA of the joint committee produced a list of subjects that he thought would be appropriate for a banker to discuss and each banker of the committee produced a list of subjects that he thought would be appropriate for a CPA to discuss. With this material in hand, the joint committee attempted to collect the related subjects in four main groups and then selected a topic for each particular meeting that seemed to be fairly descriptive.

Dates

The joint committee reached a unanimous decision that November was the best month in which to hold the meetings. Several matters had to be considered such as CPAs' busy season, holidays, fiscal year of our Society and the Robert Morris Associates, etc. It was agreed that the meetings would be held from 7:00 to 9:00 on the first four Tuesday evenings in November.

Selection of speakers, workshop leaders and chairmen of the day

We realized that the selection of speakers and workshop leaders was a very important part of the joint committee's planning. It was evident that the success of a seminar of this type would be directly related to the ability and training of the speakers and workshop leaders. Besides the problem of selecting men of stature for these assignments, the problem was made more difficult by the fact that it was recognized that no one CPA firm or bank should be unduly represented in the speaker and workshop leader group.

Selection of participants

With a membership of approximately 1,700 in the Los Angeles Chapter of our Society and many eligible loan officers, executives and credit men in the various banks represented by the Robert Morris Associates, we recognized that some definite system was required to limit the attendance at any one meeting and, at the same time, provide reasonable assurance that there would be a sufficient number in attendance to make the meeting productive. The ticket method without charge was selected. The printed program, together with a card for easy mailing, was sent to all members of our Chapter. Each member was requested to indicate on the card his first, second, third and fourth choice of the meetings he would like to attend. The program and card were mailed by our chapter secretary on October 10 with a deadline of October 19 for returning the request for admission to the seminar. Immediately after the closing date, the requests were plotted on a chart. Upon completion of the chart, it was found that requests for any one meeting did not exceed our standard of attendance by more than 38%. We decided to take a chance on issuing tickets on this basis to our membership. Based on experience, we were sure that several of our members would request some tickets that would not be used. Tickets were mailed on this basis on or about October 24. The tickets were a different color for each meeting and were dated. The ticket provided space for signature of the participant.

The bankers received an allotment of tickets that allowed for about a 25% margin in overissue. These tickets were allocated to the various banks participating in the seminar on the basis of the number of eligible participants in each bank. A member of the Robert Morris Associates in each of the banks then determined the individuals that should receive the tickets in his particular bank. It will be noted that by referring to the name of the participant and his organization on each ticket collected, we were in a position to tabulate accurately the attendance and determine the ones that made use of tickets.

Subjects assigned to speakers

After the CPA speakers and the subjects had been selected and determined, our subcommittee invited these speakers to a luncheon meeting, at which time each subject was presented and explained. At this meeting the speakers were given an opportunity to express their preference as to a subject and then a final determination was made by the chairman as to which speaker should take a particular subject. In order to coordinate the program properly with the bankers and to make sure that no CPA speaker took a position on a matter that could not be supported by our Society, we requested that an outline or draft of the proposed lecture be presented to the Society's chairman prior to distribution to the workshop leaders and banker. The bankers selected their speakers, chairmen and workshop leaders.

Meeting of speakers, chairmen of the day and workshop leaders

Four weeks prior to the seminar, in conjunction with the committee for the Robert Morris Associates, a meeting was called of all speakers, chairmen of the day and workshop leaders for the purpose of briefing them in the operating plans for the seminar. Robert Gordon, as chairman of the committee for the Robert Morris Associates, invited the group to meet in the conference room of the Seventh and Flower branch of the Bank of America. This meeting was called to order about 5:15 p.m. and lasted for about an hour. It was a very satisfactory meeting and it gave all parties that were to have an active part in the seminar a briefing in the routine to be followed at the seminar sessions, besides affording an opportunity to become better acquainted.

Responsibility of workshop leaders

It will be noted that the four meetings with five workshops in operation at each meeting required a total of 20 workshop leaders from the CPAs and 20 from the bankers. Most of these men accepted their assignment as a serious responsibility and made every effort to perform on the date assigned to them. It will be noted that a CPA workshop leader was teamed up with a banker workshop leader in each classroom. Each workshop leader was informed as to his counterpart. Invariably these two leaders met at least twice prior to their particular meeting. In many cases, they had dinner together before the seminar meeting and from there proceeded to the U. S. C. campus.

Printing of program

After all arrangements had been made for the seminar, including facilities, speakers, chairmen, workshop leaders and subject material, 3,600 programs were ordered from a printer at a cost of $104.00. This cost was shared by The California Society of Certified Public Accountants and the Los Angeles Chapter of the Robert Morris Associates.

Distribution of speeches

In order to keep all parties taking part in a particular meeting well informed, a draft of the speakers' proposed talks or an outline of the same was distributed to all workshop leaders. In the subsequent meeting of our full committee, it was decided not to publish any of the speakers' papers as it was felt that it would detract somewhat from the seminar and any one paper read outside of the atmosphere of the seminar and disassociated from the other speaker's remarks could not be viewed in the most favorable light.

SEMINAR IN OPERATION

Prime responsibility for each meeting

Even though each meeting was set up in such a manner that it would be obvious that it was a joint affair of the bankers and CPAs, it was decided that the CPAs would take the prime responsibility for two of the meetings and the bankers the prime responsibility for the other two meetings. This plan was reflected all the way through each meeting. On the first meeting date, the chairman for our Society acted as host at an early dinner, at which the chairman of the day and the two speakers and the committee for the Robert Morris Associates were present. This presented an opportunity for last minute briefing and a chance to set the tone of the meeting that was to follow. It will be noted that the chairman of the day for this meeting was a CPA and the prime responsibility for the conduct of each workshop for that evening fell on the CPA's. The procedure was completely reversed for the second meeting with the bankers in the lead all the way through the meeting. This procedure was repeated for the other two remaining meetings.

Time in general assembly and in classrooms

All of the meetings, except the first one which was delayed for a few minutes on account of the parking problem, were conducted on a very strict schedule. The general assembly meetings were called to order at seven o'clock and a recess was called at 7:55. In most cases, all participants had found their assigned workshop classroom by five minutes after eight. In all but one or two cases, the workshop discussions were terminated at 9:00. It should be noted that each participant, upon entering the general assembly room, surrendered his ticket for admission and received at the same time a ticket designating the particular classroom that he was supposed to attend for the workshop session. This enabled the committee to pretty well control the even mix of bankers and CPAs in each classroom and not overcrowd any particular room. The following is a tabulation of attendance for each of the four meetings:

General Assembly	Nov. 1	Nov. 8	Nov. 15	Nov. 22
Bankers	182	162	128	115
CPAs	138	126	132	141
Total	320	288	260	256
Workshops				
Bankers	*	*	89	85
CPAs	*	*	106	123
Total			195	208

*No record on these dates

Cooperation between banker and CPA workshop leaders

The chairman of the committee for the CPAs and the chairman of the committee for the Robert Morris Associates visited each workshop while in session for each of the four different meetings. They observed that there was very fine cooperation between the workshop leaders and invariably the leaders displayed a spirit of trying to be helpful to the participants and every understanding of anyone presenting a question even though he asked the most elementary question.

Something for the CPA from the banker

Any CPA that attended the majority of the meetings certainly had a better understanding of the banker and his operations than he had before the seminar, which included the following:

1. That the banker does not enjoy saying no to a legitimate credit application.

2. Bankers pretty well dispelled the thoughts in the minds of the CPA's that the lender is not entitled to all the financial facts.

3. Appreciation of why the lending banker is vitally concerned as to whether inventory and receivables can be turned into cash in the normal business cycle.

4. The realization that in many instances the banker is not in a position to demand any certain kind of audit or audit report because of competition in banking circles and because in many instances the borrower may be able to submit other evidence of financial stability.

Something for the banker from the CPA

No doubt a well informed banker would agree that the bankers have more to learn from the CPA in this type of seminar than the CPA has to learn from the banker. Therefore, it would be impossible to tabulate in any detail all of the things that the bankers learned about our auditing technique, accounting principles, and the whys and wherefores of certain types of reports. Some of the more important matters clarified for the bankers follows:

1. Financial statements are definitely the clients and not the accountants.

2. That the CPA is not a guarantor of the accuracy of the statements.

3. The necessity in many cases of a short-form report, even though a long-form report is also delivered.

4. Clearer understanding of the significance of opinion report, qualified report or one prepared from the books without audit.

5. Better understanding of generally accepted accounting principles as applied to inventory valuation, reserves, sales and lease back, contract accounting, tax accruals, etc.

6. Better understanding of how the CPA performs a conventional audit and how the client's system of internal control influences the auditor's work and the limitation of the accountant's responsibility for an efficient internal control.

General tone of meeting

The following are some excerpts from written reports submitted by workshop leaders:

"Observations -

"(1) The older heads of both groups seemed to know and thoroughly understand both sides of the questions asked, and they were in agreement on the answers - the result perhaps of many years personal experience.

"(2) The younger men from both groups were the inquisitive ones, seeking answers and appreciative of receiving them. (This suggests to me that the Seminar is of real value in 'educating' the men in this age group and clarifying for them the relative positions and team-work possibilities of bankers and accountants).

"(3) The seminar is a good reminder to accountants of the problems inherent in credit applications and it will make them more mindful of opportunities to render services - helpful to clients, the bankers and themselves."

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"We found the prepared material distributed to the audience very beneficial as a basis for the workshop discussion and believe it is also beneficial that the audience have material that they can take away from the meeting and discuss further.

"In general, we thought the audience response and participation was very good and the meeting well worthwhile."

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"We all feel that the workshop method of putting on the bankers' and CPA's seminar is excellent. Everyone I talked to about it thought it kept the evenings from dragging and also gave the spectators a feeling of participation. The session I conducted had no dull spots whatsoever and practically everyone had something to say during the hour."

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"From an over-all viewpoint, I unhesitatingly rate the series highly successful and stimulating, a deserved tribute to the devoted and able work of the committee."

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"As to our over-all feeling, we are both satisfied that the seminar was a decided success and a definite step toward a better understanding between the bankers and CPAs also, that such sessions could be held at reasonable intervals, each of which would further the closer understanding between us, and would be of mutual advantage in our future relations. They would also develop a fraternity between us that is so sorely needed."

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"On the whole, the discussion seemed constructive, with fairly equal participation by bankers and CPAs, and was conducted in an atmosphere of mutual interest."

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"We had, in my estimation, a very good session. We managed to get virtually all the questions answered in discussions from the floor, leaving to Carl and myself only the summarization of a series of discussions on a particular point. I finally had to call a halt at 9:25 p.m., at which time there were still more questions from hands we had not been able to recognize. Those present seemed to enjoy the proceedings as did Carl and I, and I think the whole thing was very worthwhile.

"I would like to bring up a couple of things which I think helped our workshop and which might be useful in future planning:

"(1) We had a small, 'cozy' room and the very intimacy this created stimulated discussion. We also did not have enough seats to go around so that Carl and I had to stand, which actually, I think, was much better in the interest of keeping things rolling than if we had been seated.

"(2) We were fortunate in having in this group three or four experienced senior representatives from both the bankers' and CPA's who not only were more in a position to ask questions from a real sense of interest but who also helped immeasurably in answering questions on the floor."

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At the last meeting in general assembly, Chester A. Rude, Vice Chairman of the Board and Vice President of the Security-First National Bank, was asked by the chairman of the day if he had anything to say to the gathering. Without advance preparation, he made some very sage observations, which were as follows:

"I hope these seminar sessions on the campus of the University of Southern California have been instructive and informative. The workshop idea, added this year, seems extremely desirable. The first hour is a general assembly, followed by five smaller groups to discuss the subject of the general session, and for exchanging ideas. This gives us the opportunity of knowing each other which in itself is of great value.

"Going back thirty years in banking, in this area, I recall there were no credit files, worth mentioning, in the banks. Facts were meager and there were very few reports by CPAs.

"Much progress has been made and is continuing to be made through the cooperation of the banker and the CPA. This is being accomplished by open, frank discussion of our respective problems in our separate fields. It is keeping all of us informed.

"The basic material we start with in considering a loan is the balance sheet and operating statement. Budgets and cash forecasts are becoming increasingly valuable. Where has the company been? Where is it now? Where is it headed? The more complete the facts the more surely will a proper and sound decision be reached.

"Continuing education and the exchange of ideas for our younger men coming along in responsibility will help in mutual understanding. All of this with the idea of building up the quality of reports so that sound decisions can be made, thereby enabling your client and ours to receive the ultimate benefit which is the credit needed to build and grow.

"This is what we should strive for in our exchange of ideas with each other. This is the reason some of us feel that an annual seminar is of great value."

There was more display of real cooperation between the bankers and CPAs during all of the meetings than in any previous seminar. By breaking the seminar up into five units after the general assembly meeting, it brought the participants into intimate groups where they availed themselves of the spirit to really state what was on their mind and ask very direct questions on subjects that they might have been timid inquiring about if the discussion was in general assembly. In a few cases, some of the older members of each organization indicated that they did not learn very much from the seminar as they were already familiar with the subjects discussed. However, for the rank and file in attendance, this was not true. The Third Annual Seminar for Bankers and Certified Public Accountants developed a better spirit of cooperation between the bankers and CPAs, besides being of real educational value to most of the participants.

S/ H. E. Ward

Herman Ward, Chairman
Committee on Cooperation with
Credit Grantors, Los Angeles
Chapter, The California Society
of Certified Public Accountants

IMPROVING YOUR EARNINGS

Panel Discussion
Moderated by

Charles Z. Meyer
Vice President and Comptroller
The First National Bank of Chicago

Conference of Bank Correspondents
The First National Bank of Chicago

November 26 and 27, 1956

MR. MEYER: Gentlemen, it is a most unusual thing to have so many men, top men in an industry, represented on a panel, and we in the bank feel very fortunate that we do have the top men in the accounting profession seated at this table, those who can tell you more about what you should do in your own bank than most any one else.

I would like to introduce them -- on my right, your left -- Lloyd I. Coveney, who is a partner in Arthur Andersen & Co. Please withhold your applause until we get them all up on their feet. The second is Carl I. Gustafson, who is a partner in Ernst & Ernst; then, Mr. Ralph S. Johns, a partner in Haskins & Sells; George Richards, who is a principal of Peat, Marwick, Mitchell & Co.; Hugh M. Campbell, partner in Price, Waterhouse & Co.; Roger Froemming, principal in Touche, Niven, Bailey & Smart; and Guy B. Finlay, principal in Arthur Young & Co. We also have at the speakers' table, Dave Hinkel, from whom you'll hear later. In the audience are two of my associates, Dick Keck and Marion English, both of whom are assistant comptrollers of the bank.

Time does not permit a detailed discussion of the important subject of bank earnings the way we would like to do it. However, we have received some questions and we have worked out some answers. We will try to take these questions in order when we come to them. First, though, I would like to once again harp on that perennial: Bank Defalcations and Embezzlements.

For many years bank fraud has been of major concern to the entire banking fraternity and continues to be a major problem today. In the American Banker of Friday, I think it was, or today -- both days, as a matter of fact -- they stress the fact that during 1956 embezzlements and defalcations are going to be higher than they were last year. This is not a very good record for the banking fraternity. We will have to do something about it, gentlemen, and this can be done if we will all set our minds to it.

The continuous increase of embezzlement cases can be attributed primarily to the lack of proper internal controls. Don't sit back and feel smug because you feel you are fully insured. Insurance is very expensive today because of the indifferent attitude of too many bank managements and their directors. Why create fidelity hazards, and the accompanying expense and heartaches, by lack of effective controls? There are too many banks in which effective controls are non-existent, thus creating the opportunity for internal dishonesty. Directors and management should realize their responsibilities and institute corrective measures. An effective audit control program will not only make fraud difficult but tend to minimize the hazard of loss through error.

Counsel and aid are available to every bank whose management is interested in and willing to take positive corrective action. This is available through the National Association of Bank Auditors and Comptrollers, 38 South Dearborn Street, Chicago, Illinois. Membership in the Association is not a prerequisite and there is no charge for this service.

When an effective audit control program has been installed it must be reviewed continuously and also re-evaluated so that the program will remain effective under changing conditions of the future.

Many of you gentlemen have auditors and control officers in your banks to perform the audit function. Now, we're not trying to sell you a bill of goods. We don't have to sell accountants. We are trying to sell you a bill of goods as far as better banking and safe banks are concerned. The accounting concerns represented here today, and some others, have staffs specializing in bank work, and their services can prove invaluable. It is not their purpose to supplant the auditor or control officer, but to supplement his activities with current know-how and performance.

They will explain their approach to this phase of bank operations and you can feel free to interrupt at any time to ask a question of any of these panel members. Before we start with these gentlemen, I would like to comment once again upon the fallacy of depending upon examinations made by examiners representing regulatory bodies. Most of the work of these examinations consists of evaluating assets rather than verifications. A recent decision of the Federal District Court of Maryland casts some light on governmental supervision and contains some interesting observations on the nature and purpose of supervisory examinations of all financial institutions. I am going to ask George Richards of Peat, Marwick, Mitchell & Co. to give you the gist of this Maryland case. George, I think you have it briefed there, haven't you?

MR. RICHARDS: The case to which Charlie refers is one which was decided in the Federal District Court for the District of Maryland in January of this year. It was a suit brought by a federal credit union against the Bureau of Federal Credit Unions, which is the supervisory examining body, in which the officers of the credit union alleged that the examinations made by the supervisory authorities were negligent over a period of years, and, thereby, failed to disclose the existence of a defalcation within the credit union. This defalcation amounted to approximately $395,000 and extended over a nine-year period. The court, in rendering its decision, came up with a rather interesting point regarding the duty and purpose of the supervisory examination. I think it's well to quote directly from that decision.

In part, the court said: "The examinations of financial institutions, such as banks or credit unions, are required by law for the purpose of supplying the government's supervisory authorities with information necessary to perform their regulatory function, not as a service to the individual institutions, and their primary function is neither the detection of fraud nor the verification of accounts."

The court also went on to say: "Responsibility for the verification of accounts rests with the officers and directors of a bank, and with the supervisory committee of a credit union, and if they are not qualified or willing to do this work they should employ an independent accountant to make such an audit."

The court received expert testimony to the effect that the supervisory examinations of plaintiff credit union's affairs did not measure up to the standards of certified public accountants examining the smallest of banks. However, it was the court's opinion that the experts "applied too high standards in judging the performance of the examiners. They applied standards applicable to the major leagues, whereas, because of salary limitations imposed by the budget, minor league standards would be more appropriate." It is significant to point out that the Bureau of Federal Credit Unions has the responsibility of examining between 7,000 and 8,000 federally chartered credit unions, and they have, for this purpose, a staff of some 170 examiners. On that basis, it is estimated that an individual examiner would have to make anywhere from 35 to 70 individual examinations a year. So, I think from that you can see that on the basis of the amount of time that was available for the supervisory examiner, his examination would have to be abridged in many respects.

The court also said: "It is still true that 'if the blind lead the blind, both shall fall into the ditch'. In this case, the law placed certain duties on the guides, and other duties on the guided. The government has waived sovereign immunity with respect to particular types of claims. It has not assumed the role of an over-indulgent uncle who will always rescue his nephews from the results of their own folly or misfortune."

Another point that I obtained by reading the transcript of the case, which I thought would be of interest to you, was that, as I said, this defalcation began in 1945. At that time, the credit union was in effect a one-employee shop and they employed a woman bookkeeper who operated a simultaneous type posting machine, which would post both the passbook and the ledger card at the time the transaction was initiated. She noted that when the machine was first delivered that there was an error key, or error correction key on the machine, which, by depressing that key, there would be no accumulation of the posting in the master tape totals. She called this fact to the attention of the president of the credit union, because she felt or at least she indicated to him, that this was an unsafe feature of the machine and could be corrected. The president, however, vetoed her suggestion on the ground that it would cost too much money. So, after about 90 days, she started her work of using the error key to take the $395,000.

MR. MEYER: Thank you, George, Now we will get into the questions, and the first question which we would like to have answered by Lloyd Coveney is, "What benefits should bankers expect to realize through the employment of independent certified public accountants?"

MR. COVENEY: The certified public accountant brings to the bank an expert's competence. He brings skill, knowledge, and experience in the art and science of accounting, auditing, and income tax matters, as they apply to the banking industry and as they apply to bankers. In addition to this, the certified public accountant provides independence, impartiality, and integrity in the point of view from which examinations are conducted, advice and opinions given, and special services rendered.

MR. MEYER: Thank you, Lloyd. The next question goes to Carl Gustafson. The question -- "Why use the services of outside auditing concerns?"

MR. GUSTAFSON: The developing complexities of banking operations make it all but impossible for other than the larger banks to keep pace with technical and technological changes. Bankers do obtain counsel and assistance from their city correspondent bank on many policy matters, and they should continue to do this. They should also consider utilizing outside accounting and auditing firms for advice and assistance in certain areas. One of these areas is mechanical and electronic accounting equipment, which is developing at a rapid rate. This is particularly true of electronic devices. Outside accounting firms are abreast of these developments, and are in a position to evaluate them. Here again, however, the equipment, and the cost of equipment in electronic devices can be very, very high. Directors, too, have a very grave examination responsibility and corresponding liability under federal and state laws. Outside accounting firms can render valuable assistance in considering the ways to minimize this liability.

MR. MEYER: Thank you, Carl. The next question, which is directed to Ralph Johns, is, "Why stress effective controls and auditing?"

MR. JOHNS: Effective controls and auditing contribute to efficiency of operations, and, in the long run, should contribute to the economy of operations. Effective controls should improve customer relationships through minimizing errors in handling and reporting on all customer transactions. Also, effective controls in auditing should of course be maintained over the bank's own affairs as well as those of the customers. And, to improve the net income of the bank, you must know first of all, the sources of all income, and what it costs to produce that income, and where it goes. Every effort should be made to assure yourself that all income which should be reported has been received and properly recorded, and that all disbursements of funds are for proper bank purposes, and obviously directors have a duty to minimize the opportunities presented for the perpetration of fraud without reasonably prompt detection by insisting upon effective controls and auditing.

MR. MEYER: Thank you, Ralph. The next question, which is directed to Hugh Campbell, is "Can costs of controls and auditing be measured against the benefits to be derived?"

MR. CAMPBELL: Probably not, but the cost incurred in increasing the effectiveness of controls and auditing must be justified in the light of the results. We must bear in mind that some of the results are intangible, others cannot be exactly measured. Some bankers are prone to over-emphasize fidelity bond coverage as a substitute for good controls. We mustn't forget that in the long run banks pay for all of their losses, plus the insurance company expense. Increased losses can only result in increased premiums. We should also remember that recovery can be had only when losses are discovered. Mr. Homer Livingston, in his book, quotes some fidelity company sources as estimating that undiscovered losses amount to about ten million dollars. In view of some recent large discoveries, this figure may be low. Some losses may never be discovered. If they are concealed in the income and expense accounts of the bank rather than in customers' accounts, the chance of discovery after a passage of time is quite remote. Even if the principal amount of a loss is recovered from a bonding company, the bank has still suffered some loss. If, for example, the loss involved unreported overdrafts, the bank has, in effect, been making interest-free loans. The lost interest will never be recovered. And, of course, the loss of public confidence in that bank itself, as well as in the banking community, is probably the most real loss that will be suffered.

MR. MEYER: Thank you, Hugh. The next question is for Roger Froemming. "Many factors contribute to the soundness and financial strength of our banks. More frequently we are inclined to think in terms of liquidity and quality of assets without giving enough consideration to earning power. Why is a sound net earnings position of equal importance in measuring stability and financial strength in the individual bank?"

MR. FROEMMING: If there is too much stress on liquidity and quality of assets, it is obvious that the bank's net earnings will suffer, and when net earnings are low, or nonexistant, the size of the stockholders' dividends are affected, and the bank's capital position will periodically be subjected to depletion or, at best, stay at a static condition. Because we cannot always avoid depletion of capital during periods of business decline, it appears incumbent upon us to fortify our banks by strengthening our capital position through adequate and sound earnings in those years which afford us this opportunity. A healthy net earnings record will attract investment when additional stock sales are required to keep pace with the deposit growth, and will afford the desirable dual purpose of providing, first, a reasonable and current return to the stockholders, and, second, a reasonable accumulation of past earnings to offset the result of any less favorable future period.

MR. MEYER: Thank you, Roger. Our next question is directed to Guy Finlay. "Where are some of the significant areas for improving net earnings?"

MR. FINLAY: In broad terms, opportunities exist for improving net earnings in all major classifications of the income statement. Logically, one important area is gross earnings, of which there are two principal sources: yields on earning assets, that is, loans and discounts, and fees and charges for other banking services. Operating expenses constitute another area. Statistics indicate that as much as two-thirds of every gross earnings dollar is paid out to defray the recurring costs of bank operations. The largest single item of expense is salaries, and it is here that attention should be first directed. As an industry, banking has a high ratio of clerical costs. It is in this area that opportunities may be found to increase earnings. Low salaries, when coupled with high employee turnover and poor customer service, do not reduce operating costs. Adequate pay scales that assure retention of trained personnel can produce overall efficiencies that lead to clerical cost reduction. There are many facets to the problem of clerical cost control, another aspect being system revision. There are potential cost reductions available to many banks through the introduction of modern accounting equipment, or through studies to develop more efficient methods and procedures. A discussion of opportunities for improving net earnings must take into account the relatively heavy burden of taxation on earnings. Taxes on net income may take as much as one-third of net earnings that might otherwise be available for dividend distribution or capital accumulation. The greatest single need is an adequate program of tax planning. It is in the review of prospective transactions that possibilities for tax minimization exist. The bank that waits until after the close of the fiscal year to determine its tax bill may be passing up many opportunities in this area.

MR. MEYER: Thank you, Guy. We'll get into that tax planning facet a little later, but now we have a question for George Richards. "How can the certified public accountant assist the banker in determining the adequacy of gross income in his bank?"

MR. RICHARDS: As Mr. Guy Finlay pointed out, gross earnings consist of two major classifications: one, the income derived from earning assets--loans, securities, and investments, and two, fees and charges for services performed. The independent accountant quite possibly could be helpful to the banker in analyzing the results in each one of these classifications. As to earning assets, over the past ten years we have had an increasing yield picture, in part attributed to external factors, and, in part due to a gradual shifting and expansion in volume of loans. However, as to the individual bank, possibly there may be opportunities here within the realm of sound banking practice to expand this income. As for example, recently I was in one of the southern cities at the time the Boston banks announced an increase in the prime rate on loans. This particular bank where I was visiting had a tabulating installation, and, as soon as the word was out that the prime rate was going to go up, they had a listing of all the borrowers who were receiving the prime rate in the bank. They had the list within an hour or so after the news came over the teletype. Right away they went to work to increase the rates on those loans where possible, or to set up instructions wherever renewals were coming up that the rates on those loans would have to be increased. They also made a listing of all the loans that were then on a 4% basis, because those borrowers were no longer entitled to 4%, which had become the new prime rate. That, I think, points out the fact that where you have good accounting control, good information, you can act quickly to bolster up income on your loans by having that information immediately available.

As to the second classification, that of fees and services, I think it would be reasonable to conclude that at least the services should be on a cost reimbursement basis. But this doesn't mean this will always follow in the individual shop, as for example, in many cases the rates for services were established some years back when operating costs were slightly less, or, in some instances, substantially less, than they are today, and so here the accountant could be useful to the bankers by making cost studies of various service departments in order to determine whether or not the particular charge for service is on a sound basis.

MR. MEYER: Thank you, George. Now, one last question on this phase. Lloyd, maybe you'll take this one. "Maintaining continuous controls over operating expenses can be an effective means for improving earnings. How can certified public accountants assist bankers in realizing maximum benefits in this respect?"

MR. COVENEY: Well, you heard Ray Becker say this noon that the outlook generally for banking is a leveling off of income but a continued upward movement of expenses. Under those conditions, certainly if you are going to improve your earnings, you've got to get some kind of expense control.

Now, as you all know, expenses are not all the same. Some of them are relatively fixed. Others are controllable to a lesser or greater degree. It is in this area of controllable expenses that something effectively can be done to improve your earnings. Expense control starts with the setting of lines of authority for purchasing and expense commitments. Sound principles of internal control must be applied at this level, as well as in the procedures for approving and making expense disbursements. The objective, of course, is to prohibit any irregular expenses as well as any improvident expenses, and you've got to do that at the source, where they initiate.

Then you have to establish adequate means for measuring results, and your classification of expense accounts must be such that the person to whom you are reporting the actual operations has a full understanding of where the money is being expended. This classification should tie in closely with your budget preparation, because the budget in itself is really an informed planning of what type of expenditures and the amount of expenditures that should be incurred. The reporting of actual expenditures with the budget comparisons at regular intervals to the person who is in a position of controlling expenses in effect gives him the scorecard, so he knows where he is going and can do something if he is going astray. In all of these matters, a certified public accountant can be useful. He is, of course, quite familiar with principles of effective control, with principles of recording and classifying accounts, and with the principles of budget preparation and reporting.

MR. MEYER: Thank you, Lloyd. Now, we'll get into this second facet which is tax planning, and that is all important, gentlemen. This is the function through which top management concerns itself with the retention of its hard-earned profit dollar, and at the same time recognizes the responsibility for paying its fair share of the cost of the government. Today, tax management is a scientific operation. If your bank is earning a 4% interest rate, every dollar of federal income tax saved will be equivalent to approximately $52.00 of loans if you are in the 52% bracket. We have some questions on the subject of taxes, and we'll go around the panel once again. The first one is for you, Carl. "What are some specific examples of tax planning where the certified public accountant can be helpful to the banker through minimizing his income tax burden?"

MR. GUSTAFSON: There are those who believe that after you fill in the tax return and determine the amount of taxes payable, that is all you can do in the way of holding your tax liability to a minimum. However, we do know that there are ways to keep that income tax liability to a minimum, and that is by tax planning. Under this planning, we can either reduce the amount of taxes payable permanently, or we can defer the taxes that would be payable now - defer them to a future period.

One field of activity which presents an opportunity for real tax saving and not mere tax deferral is the sale and repurchase of government securities. As you know, any gains realized on securities held longer than six months are capital gains, but any losses on securities are ordinary losses. If the security market is good and securities are selling at a premium, the bank can dispose of securities which it holds at a profit, realizing a capital gain, and then can repurchase securities which, of course, require the payment of a premium. However, this premium can be amortized against interest income subsequently received. Therefore, the potential tax benefit is in paying a capital gains tax on the gain from the sale, and amortizing the premium paid, which is deductible from income taxable at ordinary rates, over the life of the purchased securities.

If the security market is down, securities can be sold at a loss and similar securities repurchased at a discount. In this case, the loss can be deducted as an ordinary loss and the amount of the discount will be realized as a capital gain upon the maturity of the securities. In transactions of this type, in order to obtain the tax benefits which are available, it is necessary to plan your gains and losses so that gains which would otherwise be capital gains do not offset losses which would otherwise be deductible at ordinary tax rates.

A method of deferring taxes is available by the adoption of the reserve method of accounting for bad debts. While the use of the reserve method has the effect of spreading out deductions for bad debts, as long as the bank is entitled to maintain any balance in its reserve, it has received the tax benefit or tax deferment from the deduction thereof compared to actual deductions on the charge-off basis. Banks using the reserve method may increase the amount of the reserve at any particular time by increasing their outstanding loans as of December 31.

Another method of tax deferment the bank should be aware of are the new methods of depreciation provided by the 1954 Code, and the banks should be familiar with the effect of their use upon their tax liabilities. The use of the declining balance method or the sum of the years digits method would give substantially more depreciation charges in the early years of the asset, and would be of particular benefit on a long-lived asset such as a new building or substantial improvements to existing buildings.

In many cases, banks will be holding foreign bonds or securities, or other types of bonds or assets, which may have been charged off as worthless in a prior year, but which have since recovered some value. If the bonds are held to maturity, or are sold, the bank will realize taxable income therefrom. A possibility for tax savings exists if such bonds are contributed to some charitable organization, so that the fair market value thereof at the date of the contribution is allowable as a charitable contribution. As long as the security itself is contributed, a deduction is obtained for the fair market value thereof, and no type of taxable gain is realized by the bank as a result of such contribution. If the bank first redeems or sells the asset, the amount received would be treated either as a recovery or as a capital gain, which would require the payment of tax thereon. In some cases this procedure might enable a bank to make a more substantial gift to some charitable organization than would otherwise be possible, with resulting tax benefit derived therefrom.

Many banks file their income tax returns on a cash basis. Many smaller banks which make installment loans, where the interest is either added on to the note or deducted from the face amount of the note, take the entire amount of interest or discount into income at the time the note is made, since they are reluctant to keep records necessary to spread the interest over the term of the note. Naturally, such a treatment results in the prepayment of taxes, and is not in accordance with recognized methods of reporting such income. A change to the proper method of recognizing the income over the term of the note would defer the payment of taxes, although it is recognized that the change to the proper method may give rise to an attempt by the Treasury Department to tax in a current year income which had previously been reported. Such an attempt would necessitate the application of Section 1311 in order to avoid the double taxation of income.

MR. MEYER: Thank you, Carl. We have another question. "How can an accounting firm help a bank to keep its tax bill at a minimum?" Ralph, would you take that one?

MR. JOHNS: Yes, Charlie. Competent preparation of a tax return is important, of course. Proper elections and classifications minimize taxes, for Example, election to amortize bond premiums, election to take accelerated depreciation, proper classification of tax-exempt and partially tax-exempt interest, proper classification of capital gains and losses. Of far greater importance, however, is advance tax planning. This would include proper management of the investments portfolio during the year, proper timing of bad debt deductions, and, for cash basis tax-payers, timing of income and expense items near the end of the year. Also, proper planning for disposal of fixed asset items, whether by sale, trade-in, or abandonment. Unless the accounting firm helps its client plan the bank's taxes throughout the year, the accounting firm is not rendering all the services it is capable of rendering. And, now that taxes constitute a major expense of every commercial bank, it would seem very imprudent for a bank not to have a regularly scheduled procedure to estimate its tax liabilities and to review its tax position in order to keep its tax bill at a minimum. The best practice, of course, is for the bank to do this monthly, second best would be a quarterly review, and in some cases perhaps a semi-annual review would be adequate. At least twice during the year the bank's tax advisor should review the tax picture with the bank, and supplementary thereto the accounting firm should be brought in for consultation whenever anything occurs of major importance, such as a sudden decline in bond prices. We actively discourage the practice of merely calling in an accounting firm at the end of the year and having the accounting firm prepare the bank's tax returns from the books. It is absolutely imperative that planning take place well before the end of the year, and not in the last few weeks or after the end of the year when it is much too late to take the necessary corrective action.

MR. MEYER: Thank you, Ralph. This next question will be directed to Mr. Hugh Campbell and the question is, "Would you suggest that additional bond losses be taken this year in place of adding to the bad debt reserve?"

MR. CAMPBELL: I'm not sure the two questions are related, but I think they are both important points. It is impossible to state categorically what all banks should do. The answer to this question depends naturally on many considerations, and each would have to be studied before a recommendation could be made with respect to any particular bank. For example, does it appear that your total loans will be as great in the future as they are today? If it does not, a bank may lose forever the opportunity of a larger reserve if it does not add all it can to its reserve this year. If there is any pressure by the supervisory authorities or by the Board of Directors of the bank for an additional capital cushion, the bank might want to add as much as it could to the reserve, because the reserve is certainly a cushion against losses even though it is not strictly a part of capital funds. Again, what is the condition of the bank's loan portfolio? Does it look as though a larger reserve is needed right now? There are many other problems which might be present in a bank which can be important factors in this decision. However, I certainly believe it is worthwhile for consideration to be given to the question as to how much bond losses the bank should take, and how much of an addition to its reserve it should make. I do not believe that a particular bank should necessarily add all it can in any one year to its reserve, nor do I think it should necessarily take all of its bond losses. Dividend policy, public relations with regard to publicized earnings, and many other factors may enter into the picture. Each bank must be studied and each case decided on its own merits and, of course, its important whether your bank's stock is closely held or widely distributed. You may have to give consideration to bonus payments based on earnings.

MR. MEYER: Thank you, Hugh. Our next question is directed to Roger Froemming. "Under Mimeograph 6209 and the alternative method for reserves for bad debt, the Commissioner stated that newly organized banks and banks without sufficient experience of their own could set up a reserve commensurate with the average experience of other similar banks by filling in the missing years with 'similar comparable date.' What will the Commissioner accept as 'similar comparable date'?"

MR. FROEMMING: In 1948, the question was asked the Commissioner whether a bank could fill in missing years on the basis of statistics prepared by the Federal Reserve Board for its district, or on the basis of statistics which were prepared for its state by the Comptroller of the Currency, the FDIC, or its State Banking Department. The Commissioner replied that advance approval for the application of any date could not be given. He stated in the final analysis "each bank should use such date which it considers comparable in arriving at an average percentage of losses." Federal Reserve statistics are most generally used by the banks who lack experience of their own. The use of Federal Reserve statistics has usually been approved by the Internal Revenue Service upon audit of the bank's income tax returns. However, a higher loss experience may be available to a bank if it uses the loss experience of other banks in its area which were in existence during its missing years. In obtaining the loss experience of another bank, you are reminded that you should determine whether it is also including the loss experience of any segregated trust that may have been established during the 1930's to handle critical loans.

MR. MEYER: Thank you, Roger. Before we get into the next question, I would like to tell you the present status of the reserve for bad debts that the ABA has been working on for some time. I was asked by four different gentlemen what the status of it is. At the present time it is not dead, it is still breathing, but not very heavily. As you know we had hoped to get an across-the-board deduction of 5%. Now, some fields of thought, particularly in the Treasury Department, are talking in terms of 3% and do it legislatively. Well, if you do it that way, if you do it legislatively, you're going to have a tough time ever changing it upwards. They'll change it down for us, but not up. We still feel that it should be done in the Treasury Department and not through legislative action. The timing is all important. We're hoping that we can get better than 3% across-the-board, and certainly not through legislative action.

Our next question is directed to Guy Finlay, and also is one about the reserve for bad debts. "Under the alternative method for bad debt reserves a bank is allowed to use a loss experience factor based upon any consecutive 20-year period beginning in 1928 or later. If a bank was newly formed in a year like 1934 or 1935, or earlier, it would now have 20 years of experience of its own. Would it have to use its own experience, or could it go back to any consecutive 20-year period beginning with 1928 and fill in the missing years with substituted percentages from similar comparable data?"

MR. FINLAY: On the facts stated in the question, the bank would not have to confine itself to 20 consecutive years of its own experience. When the alternative method was developed in 1954, it was the intent of everybody concerned, including the Internal Revenue Service, that a bank formed after 1928 would be permitted to adopt a 20-year period which started earlier than the bank's formation, filling in the missing years with comparable data, even though the bank for the taxable year involved now had 20 or more years of its own experience. For example, in order to determine its ceiling for 1956, a bank which started, say, in July of 1934 could use comparable substituted percentages for the years 1928 through 1934 and their own experience for the years 1935 through 1947.

MR. MEYER: Thank you, Guy. Now, let me say that in an individual situation there can be many, many more questions like those given. A periodic review will bring many of these questions to life and permit thoughtful consideration, thus giving rise to judicious tax administration.

We have a gentleman who is going to take the rostrum now. In my mind, he is one of the tops in his field. Dave Hinkel has only about 15 minutes to cover a subject that should take hours. However, I know he'll do a good job. It is a difficult subject because we Americans have a very special trait, a love for gadgets, a love for the novel and spectacular. You've seen some of these exhibits of the machine and equipment people, where bells ring and lights go on and you wonder what's going to happen next. We are intrigued by automation. Electronic devices are nothing more than office tools. They should cut costs and provide management with needed facts faster. It must be remembered in connection with electronic equipment that a machine is not a person, it can not learn, and experience means nothing to it. Most accounting concerns have made a thorough study of the application of electronics to data processing in the banking industry, and this is available to all bankers. In our own bank we also have a research and development setup, and I said, Dave Hinkel heads that up and you'll hear from him now. I wish he had more than 15 minutes but that's all we have at this session. Dave.

MR. HINKEL: Thank you. The subject of electronics in banking would cover a multitude of applications which one might talk about for days. I will try to confine just a few remarks to only one phase of it. The most serious operating problem of the banks today is that of check handling, and it is becoming more and more serious as time goes by, not so much from the complication of the individual steps involved, but rather from the terrific volume of checks written. A study of the check collection system in 1954 revealed that on an average day in 1952 about 29 million checks were written. Between 1939 and 1952 the number of checking accounts increased from 29 million to 47 million. In the same period the number of checks written annually grew from an estimated 3.5 billion to nearly 8 billion. Should this trend continue, 14 billion checks would be written in 1960 and by 1970 the volume would be around 22 billion. Many of these checks may be handled by 3 or more banks and each bank may handle them a number of times. We might estimate something in excess of 100 billion handlings a year. These figures indicate the seriousness of the check handling problem of the banks and further indicates the obvious need of some type of <u>document processing equipment</u>.

Some aids are now available to help in this enormous paper handling task, but it is still a dull routine manual operation. It raises more and more personnel and cost problems. Also the matter of "float" or of checks taking too long to be processed and collected, because until it is collected, the check is merely a piece of paper. These checks or pieces of paper are now entered into proof machines, adding machines and bookkeeping machines by manual key depression. Some equipment is available for performing other operations automatically, such as picking up balances, but still require manual key depression of amounts. The electronic computer is the obvious answer where a large quantity of arithmetic is required for each unit of input, but our operations require a minimum of data processing from a large volume of input. The device or devices we need should read automatically various sizes of checks, accurately, and at high rates of speed, then prove, sort and post. We have reviewed this problem with the various office equipment manufacturers who fully recognize it, but until now, the machine language used for reading had been proceeding along many different lines.

The most significant development toward the eventual solution of the check handling problem was the selection of a common machine language by the A.B.A. This announcement was made when a few proto-types were in the engineering stage in testing and now the office equipment field and the banks can direct their research and development toward a single objective. The office equipment manufacturers have now promised their cooperative action which is the only possible solution to the problem of check handling. Obviously the manufacturers will develop a wide variety of machines for processing, but the one common feature will be to read the common language. Common language is the imprinting of items or checks with standard and uniform characters which mean the same thing each time they are read by a machine regardless of manufacturer. The common language selected was what is called the "Magnetic Ink Character Recognition" method whereby the checks will be printed in the conventional manner using a magnetic ink for the controlled information such as, sorting symbol, A.B.A. number, account number, possible transaction number and amount.

The following is a simplified explanation of the reading process: The magnetic ink holds in suspension a vast number of extremely tiny magnetic particles. As these are magnetized the sum total of these particles actuate the electronic equipment through the use of a reading head. The sum total or so-called visual weight is different for each of the 10 Arabic digits of 0 to 9. As each digit passes under the machine's reading head, the machine checks for the presence or absence of magnetized ink at several points in the area the figure occupies. Inasmuch as no two figures will have ink at all the same points, the machine senses what figure is printed. All this takes place at a very high rate of speed. The printer would print the prequalified information or sorting symbol, A.B.A. number and account number on the check and an encoding device such as a proof machine would print the amount. In this manner the checks would be handled manually in the first bank only once and from then on could be handled automatically. However, much remains to be done.

The A.B.A. Committee has been working with the printers and the manufacturers in setting up a format for mechanized check handling. When these details have been worked out, a specifications manual will be published. This will be well in advance of the time when the manufacturers have equipment available for the market, however, the time to start thinking and planning for this era of automation is now. It is often said that "all things come to him who waits." But remember they come much more quickly to him who goes out to see what it is all about. There is no wholly acceptable or approved plan of procedure to follow along these lines, because a common standard of approach does not exist. For instance, the most frequent question seems to be that of account numbering. Should it be straight numeric or alpha-numeric? Further consideration should be given to the type of check or proof digit. At this time it seems entirely possible that to receive the most efficient utilization of a given type of equipment, a particular kind of numbering system would be desirable. This would indicate that we should delay any final decision on this subject.

The present state of the art indicates that some hardware or prototypes will be available in the near future. A number of people have had quite a number of ideas, and a great amount of money, energy and ingenuity has been put into the problem, but to our knowledge there has been no attempt made to set up actual production lines for equipment to meet our standards. There is a great difference between the processing of controllable material in a laboratory for a short period of time, and the practical application of such a device in day-to-day check operations. Equipment will be available to perform the manual clerical functions now involved in check handling--functions consisting of the reading of data and recognition of information, the movement of paper, and the necessary arithmetic. This equipment will relieve monotonous clerical detail, provide faster processing and greater accuracy of operation, produce greater individual productivity and perform all of this on an economic basis. It is our objective and that of the manufacturers who will build this equipment, that it be used not only by the larger banks, but also the medium and smaller sized banks, on a sound economic basis.

I would like to take a few moments to indicate our approach in 1951 to the rather extensive operation involving our Travelers Checks. Being largely on a manual basis, we were exposed to the shortage of clerical personnel to reconcile the tens of thousands of these pieces of paper every day and the usual number of errors resulting therefrom. By prequalifying or encoding the paper checks, it was possible to read or sense this preprinted information automatically. We now have the second of these machines in operation which reads the coded information and delivers these readings to a punch machine, where at the rate of 200 checks per minute a card is punched for each check. This card contains check number, denomination, the number of the issuing bank, a batch number, the sequence number within the batch, the date and also imprints the check number. This device contains auxiliary electronic circuitry, capable of operating other business machinery such as paper tape, magnetic tape and in some cases electronic computing mechanisms. We realize that the equipment involved is highly specialized and is not a system for all check handling, but it is the first, fully automatic, check handling process, past the proving stage and in every day production. We know it has solved some problems and will tend to accelerate a program of general mechanization. Thank you.

SUMMARY OF FINDINGS BY THE ROCHESTER MEMBER BANKS OF THE ROCHESTER-CENTRAL NEW YORK CHAPTER OF THE ROBERT MORRIS ASSOCIATES, AND THE COMMITTEE FOR COOPERATION WITH LOCAL BANKERS AND CREDIT AGENCIES OF THE ROCHESTER CHAPTER OF THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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Foreword:

On the national level the Robert Morris Associates and the American Institute of Accountants have been active in mutual cooperation pertaining to the submission and interpretation of credit information. However, the findings of these two national groups have not always been applicable to local situations and problems. Because of the peculiarities of local credit granting and the necessarily general statements submitted by the national organizations, it was felt desirable to institute a series of professional meetings between the local representatives of the two groups. For several years the Rochester Chapter has held joint meetings with the local chapter of the Robert Morris Associates, these meetings having been on a purely social level and offering little opportunity for mutual understanding of the varied technical and professional problems confronting each group.

The general purpose of these joint committee meetings was to promote a better understanding by accountants of the nature of the financial information desired by bankers for credit purposes, and to attempt to outline the reasons behind the credit grantor's need for this information. A dual purpose of these meetings was to outline to the banker the procedures used and the availability of this type of financial information to the accountant in the conduct of his examination.

This report should not be construed in any way as an attempt by either of the joint committees to regulate the independent CPA in the execution of his audit. Conversely, this report is not an attempt to confine the scope of the financial information which the loan officer desires for the intelligent granting of credit. However, it is an attempt to have financial reports rendered in a form which is eminently adequate for bank credit purposes.

I. The Relationship between the Banker, the Businessman, and the Accountant

In the past, in the Rochester area, there has been a certain amount of dissatisfaction with respect to financial reports received by the credit officers of local lending institutions. Insufficient financial information, oftentimes prepared by an independent CPA, is submitted to the bank by its borrower in complete good faith as to its adequacy. It developed that the dissatisfaction resulting from the incompleteness of the information was very seldom communicated to the accountant. The loan officer was forced to resort to his own means of obtaining the necessary additional information. In many instances the loan officer's request for certain specific information from the borrower was never transmitted to the accountant preparing the report.

The joint committee has agreed that one of the most important steps that can be taken at the local level is for members of both groups to encourage contacting the member of the other group whenever it is apparent that financial information is going to be required. The joint committee recommends that credit men negotiating with prospective borrowers make every effort to personally contact the customer's accountant to insure the inclusion of all necessary financial information in the accountant's report. Conversely, when an accountant is engaged and it becomes apparent that his report will be used for credit purposes, he should request permission from his client to contact the loan officer with a view to discussing the type of financial information best suited to his client's needs.

II. The Type of Financial Reports to be Submitted

On a national level many credit institutions are still accepting non-certified or non-opinion financial reports, and in some cases were accepting reports which had not been prepared by CPA's or even reliable public accountants. It was felt by many on the joint committee that the situation in the Rochester area was not too different from that reported in the country-wide survey made by the American Institute of Accountants. The joint committee felt that wherever possible the borrower should submit audited financial statements, especially in cases involving sizable loans. Obviously, the independent accountant cannot be restricted in the scope of his examination and still retain his effectiveness. The joint committee recognizes that neither the banker nor the accountant can require an unrestricted, independent audit. On the other hand, it was felt that the banker is in an excellent position to explain the value and necessity of an audit. In so far as the insistence upon audited financial reports is concerned, the joint committee recognizes that the various credit men are in competition and that without complete adherence to this recommendation its effectiveness will be negligible.

The joint committee further agreed that the type of financial report most beneficial to the loan officer is the so-called "long form" type of report. For obvious reasons the long-form report is of greater value to the banker in that it contains additional operating information such as comparisons, percentages, ratios, source and application of funds, etc. The joint committee recommends that members of both professions point out to the borrowers the advantages of this type of financial report and the management assistance which can be derived therefrom. Supplementing the joint committee's discussion of this item, the Robert Morris Associates' representatives pointed out that in the determination of the degree of risk involved in any proposed loan it is essential that the loan officer have before him the entire recent financial history of the borrower.

III. Type of Detailed Information Necessary as it Pertains to Specific Items

In so far as the treatment of the various types of items appearing on the balance sheet and income and surplus statement is concerned, the joint committee reached general agreement as noted below, with the specific recommendation, however, that all unusual items be specifically noted or referred to. Much of the information noted below can be presented only in the long-form type of audit report. Obviously, where it is necessary to render the short-form type of report, much of the detail will have to be omitted and only unusual items noted. As heretofore stated, this is not to be in any way construed as an attempt by either of the joint committees to regulate the independent CPA in the execution of his audit.

Cash

Items of cash should be detailed in so far as noting the banks where amounts are on deposit, the restrictions applicable to any deposits, the type of currency involved, etc. It was agreed that overdrafts should be treated as current liabilities unless there were accounts in the same bank which could be used to offset such overdrafts.

Notes and Accounts Receivable

Notes and accounts receivable arising in the ordinary course of business should be segregated on the balance sheet from amounts due from officers, subsidiaries, affiliates, etc. Notations should be made of notes which were taken in collection of old accounts receivable as opposed to those taken in the ordinary course of business. Any notes which have been sold or discounted with recourse should be so reflected. It was emphasized that an ageing of accounts receivable was of vital importance not only to the credit man but also to the businessman. Such an ageing schedule obviously points out the effectiveness of the businessman's collection policies. In the event that receivables are offset against payable, such offsets should be noted and the reason therefor outlined. Substantial amounts included in either notes or accounts receivable from single or closely related creditors should likewise be designated. Any unusual debtor-creditor relationship should be noted and explained. It was also deemed advisable to include an explanation of any pertinent changes in the reserve for bad debts as well as the basis for determining such reserve.

Inventories

A detailed analysis of the various types of inventories was considered important, as well as the basis for evaluation of the various items and some statement by the accountant as to the verification by him of the amounts. Notations should also be made of consignments, pledged inventories, and purchase commitments beyond the normal activity of the businessman.

Other Current Assets

For such things as cash surrender value of life insurance, prepaid and deferred supplies, U.S. Treasury securities, marketable securities, and special deposits, it was generally agreed by the joint committee that they may properly be included as current assets if they are of a type that can be, and the client intends to, convert them into cash within the next 12 months period.

Other Assets

Items includible under property, plant and equipment, investments, and other assets were discussed briefly, with the recommendation that any items of an unusual nature be fully disclosed.

Notes or Loans from Banks

An analysis of the obligations to banks should be made, including the name of the lending institution, the nature of the obligation, the maturity date, and the collateral, if any, securing such obligation.

Notes and Accounts Payable

The treatment of these items is similar to that of notes and accounts receivable in that trade notes and accounts should be separated from other types of notes such as officers, employees, etc. Information pertaining to the form of the obligation, maturity date, interest rate, collateral, etc., is generally valuable. Wherever possible, notation should be made of subordination agreements, as well as any contingent liabilities which may have been disclosed.

Other Liabilities

Any unusual items should be noted and completely described.

Capital

All details of stock issues, such as dividend rate, cumulative or non-cumulative, call price, redemption price, conversion features if any, etc., should be disclosed. If possible, ownership of common or voting stock, especially where it is controlling, should be set forth. One of the most important items to be discussed concerned a reconciliation of the capital and/or surplus for the current year. It is recommended that such a reconciliation be included in all financial reports, with a complete explanation of all reconciling items. In so far as partnerships are concerned, pertinent details of any partnership agreements should be set forth and an analysis of the types of items which have been charged to the partners' respective drawing accounts should be made.

Income Statement

The joint committee agreed that all of the items included on the income statement be self-explanatory. Unusual items should be fully explained, as well as setting forth individual amounts for such items as gross sales, net sales, cost of goods sold, gross profit, depreciation, amortization, officers salaries, interest on borrowed moneys, discounts given, bad debt expense, etc.

General

In addition to the above specific types of information, the date of the last income tax clearance, details of insurance coverage, and any unusual items or transactions should be noted.

Conclusion

The joint committee wishes to stress the necessity for closer cooperation between members of both professions. Only through such cooperation can the loan officers obtain complete and pertinent financial information. The independent C.P.A. is able to render financial reports containing such information only when he has been apprised of its need through such an avenue of joint purpose.

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1959-60

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John J. O'Connell, Jr.	Broeker & Hendrickson, 2387 University Avenue, St. Paul 14, Minnesota
F. L. Patton	Cambridge Rubber Co., 748 Main Street, Cambridge 39, Massachusetts
Richard K. Puder	60 Park Place, Newark 2, New Jersey
Lewis E. Rossitter	F. W. LaFrentz & Co., 208 South LaSalle Street, Chicago 4, Illinois
Lawrence J. Scully	McConnell & Breiden, 1832 Fidelity-Philadelphia Trust Building, Philadelphia 9, Pennsylvania
Bernard J. Zucker	111 West Main Street, Waterbury 2, Connecticut