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The
C. P. A. BULLETIN

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Volume VII

MAY, 1928

Number V

NOTICE OF MEETING

THE SEVENTH ANNUAL MEETING

OF THE

National Association of Certified Public Accountants

Will be held on

MONDAY AND TUESDAY

JUNE 4 AND 5, 1928 at TORONTO, CANADA

All Professional Accountants are cordially invited to attend this conference

Pursuant to article 4, paragraph 3 of the by-laws of the National Association of Certified Public Accountants, notice is hereby given of the annual meeting to be held at the King Edward Hotel, Toronto, Canada, beginning on Monday, June 4th, 1928, at 11 o'clock A. M. at which time the regular order of business will be taken up, namely: (1) Calling of roll, (2) proof of due notice of meeting, (3) reading and disposal of any unapproved minutes, (4) annual report of officers and committees, (5) election of governors, (6) unfinished business, (7) new business, (8) current topics, (9) adjournment, (10) banquet.

(Signed) C. P. TIMMONS, *Secretary*. (Signed) Wm. M. WILLIAMS, *President*.

A MAGAZINE DEVOTED
TO THE
PROFESSION OF ACCOUNTANCY

INSTRUCTION FOR BANK EXAMINATIONS

By THOMAS L. WOOLHOUSE

(This is the first of a series of articles on various audits by Thomas L. Woolhouse, 320 Fifth Avenue, New York City. This series will be published monthly and will cover a wide range of commercial audits.—Editor.)

The requirements include many responsibilities and duties of detail whose ramifications are numerous and complex. The vigilant auditor has a topical list of the duties he considers essential to a thorough investigation, and, although the method is frequently changed, a synopsis of the details would be substantially as follows:

1. Count the cash on hand and verify the amount with the ledger. Obtain explanations for all cash tags and memoranda. Verify and list the cash items held in lieu of money, items to be collected, and returned items. Inquire if a petty cash fund exists and, if so, examine it carefully. Verify details of the day's exchanges and drafts sent in or out on balances.

2. Scrutinize, list and classify loans and discounts; carefully examine collateral; be sure that all notes are signed; record past due paper and arrearages of interest payments; be sure that no loans exceed the legally prescribed limits: In most States, savings banks are not permitted to loan on commercial paper or make unsecured loans.

3. Count and examine the bonds and securities and verify with the general ledger. Calculate the market value and compare with the book-value, noting appreciation or depreciation. When counting securities, note the due dates of the last coupons clipped, and verify the coupon account. Verify securities and mortgages to cover requirements by various states.

4. Inspect and list mortgages; be sure that taxes are paid, title insurance, appraisal certificate, assignment of insurance policy are on file, and that the mortgage is not in excess of the legal percentage of the appraised valuation.

5. Real Estate owned: Examine deed, tax receipts, title guarantee, appraised, assessed and book values. Is the insurance sufficient?

6. Carefully investigate overdrafts and, if uncollectible, have them charged to profit and loss.

7. Investigate the liability of directors and officers on loans and overdrafts.

8. Be certain that furniture and fixtures figures are not excessive.

9. Become familiar with the hidden assets (reserves) in the above accounts.

10. Foreign Department. If shown on the balance sheet as a separate item, verify all assets and liabilities of this department, being sure to note contingent responsibilities. Send for statements from all foreign banks. Calculate the profit in foreign currencies.

11. Capital stock should be verified by proving issues, cancellations and outstandings. Look for over-issues.

12. Verify amounts due from banks and bankers, sending out statements.

13. Make thorough test of individual deposits, examining dormant accounts, etc.

14. Make tests of interest calculations and classify interest bearing accounts.

15. Verify total of outstanding certificates of deposit. Be sure the old ones are cancelled and that partial withdrawals are recorded on the stubs. Prove total with controlling figure of the general ledger.

16. Verify cashier's checks in a similar manner.

17. Verify certifications with the certification book and if in doubt, let the receipt for returned vouchers be produced.

18. Verify cotton, coffee and produce margins.

19. Verify provident accounts.

20. Search for hidden profits and loss items which may frequently be found in the individual ledgers.

21. Verify revenue and expense accounts leading to correct profit and loss and surplus figures.

22. Contingent liabilities should be carefully investigated.

23. Audit last published statement, and reconcile it with the general ledger.

24. Carefully scan the minute book.

GENERAL PLAN OF EXAMINATION

It is not purposed to discuss the minute details of an examination but merely to present a general plan for an examination or an audit even though the probing into some balance sheet items is of the nature of a partial audit of the affairs of the bank undergoing examination. The particular conditions and the judgment of the auditor determine which accounts require auditing, and of which of them a thorough testing affords sufficient verification.

One of the first duties of an auditor upon beginning an examination, is to place seals upon

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all the vaults of safes containing cash or securities, and keeping them under seal until the verifications are completed. By this means, all the securities held are under control simultaneously. The seals may not be broken by the officers or employees of the institution, otherwise their purpose would be defeated. By the proper use of seals the substitution of securities is prevented.

Having safeguarded the substitution of securities, the auditor counts the balance of cash on hand and scrutinizes the cash items carefully. Transfers from one teller to another or the sending out for cash to conceal defalcations, etc., should be immediately detected by means of a distribution of the staff of examiners. Clearing House and collection items are either sent out by

(Continued on page 10)

EDITORIAL

By J. R. HUTCHISON

The seventh annual convention of the National Association of Certified Public Accountants will be held in the King Edward Hotel, Toronto, Canada on Monday and Tuesday, June 4th and 5th 1928. Toronto, being a convention city ample hotel accommodations have been provided for our members who will be in attendance. In addition to the King Edward Hotel there is the Waverley Hotel, Prince George Hotel the Walker House and many other first-class hosteleries that have reserved accommodations for our members. The convention will open at 11:00 o'clock A. M., Monday in the King Edward Hotel. The regular preliminary routine work will be taken up and disposed of after which the convention work of the National Association will be disposed of in its regular order. At this convention there are to be elected four governors for a period of one year each, one governor for a period of two years and one governor for a period of three years. During the afternoon there will be a round table discussion of accounting affairs and for the evening there will be prepared a banquet with ample room to take care of all members present and their friends.

At this meeting there will be several important propositions presented for consideration and adoption. It will be remembered that there is a strong sentiment presented by certain accounting organizations to do away with the designation C. P. A. and introduce the designation R. P. A. registered public Accountant or A. P. A. approved public accountant, therefore the National organization of Certified Public Accountants while in convention should investigate this propaganda and endeavor to re-establish and restore to the United States Accountant his rightful designation C. P. A.

Your association has been very successful in standardizing and maintaining the designation C. P. A. and now all states and territories within the United States have their own state C. P. A. Boards of Examiners. A number of state Boards are preparing and conducting their own examinations who did not before the organization of the National.

One of the important questions that will come up before this convention is this, shall the application for membership form be changed to admit all accountants applying who hold State C. P. A. Certificates or shall the Association main-

tain its standard form requiring that all state C. P. A. certificate holders pass the National's examination before being admitted into membership.

Then again the reciprocity clause should be taken up and be made broad enough to allow an accountant of one state to work in any of the other states.

STATE LEGISLATION

Most state legislative sessions have completed their terms and are closed or about to be closed until the next session which in most cases will be two years hence. The accountancy laws throughout the various states have not been greatly changed.

Illinois House bill No. 252 as amended and the Florida Senate bill No. 282 as amended were approved. Copies of these two laws may be found in the August-September 1927 C. P. A. Bulletin. Porto Rico C. P. A. law was approved May 13, 1927, copy in full in the November 1927 bulletin. Virginia House bill No. 286 as amended became a law. Copy in full in the April 1928 Bulletin.

THE 1929 MEETING

Where shall we meet in 1929. Many bids have been made for the 1929 meeting namely: Memphis, Los Angeles, Chicago, Detroit, New York, Atlantic City, Philadelphia, Tokyo, Japan: Hawaii and many others.

FOOD CONTROL

By ARNOLD JORGENSEN

(An address delivered by Mr. Jorgensen, a member of the Hotel Accountants Association, before the District of Columbia Chapter at their monthly meeting held at the Mayflower Hotel, Washington, D. C., April 20. Mr. Jorgensen said in part.)

You, as resident hotel accountants or public accountants having a hotel clientele, are principally interested in presenting to the managers and owners a true status of the departmental operations, whether it be rooms, food, beverages, cigars, telephone, or any other item. When the result is revealed in a red figure, no matter how much time or effort you have made to present your report, it still is unpleasant and disagreeable to the one who has his money invested. Particularly so if there might be a profit, but not the maximum obtainable.

Revenue from rooms, which comprises about 45 per cent of the total revenue of the average hotel, involves no prime cost,—only overhead wages and expense supplies, which can be easily controlled. Food revenue generally represents the other 45 per cent of the total hotel revenue and involves a prime cost in addition to overhead cost. The departmental expenses, aside from prime cost, are more or less fixed from one period to another and for that reason a material increase or decrease can be easily explained. It is entirely different when you ask for an explanation for an increase or decrease in the food cost, and inasmuch as this item represents from 30 to 50 cents of each dollar of food revenue, it is very vital to keep that cost as near normal as possible. How many of us realize that an abnormal food cost of ten cents of each dollar revenue on monthly sales of, say, \$20,000 means a loss of \$2,000, and if the sales are double that amount, the loss is \$4,000, and so on according to the total sales.

Back of every restaurant or hotel kitchen is that great problem of food control, which, in simple terms, is concerned chiefly with the raw material element, how skillfully it is purchased, what ground it covers, just how it is distributed, how much is left over at the end of the day, and what percentage is credited to spoilage.

Let me divert your attention to a specific case of just this very thing, by telling you of an experience of my own some years ago at one of the large hotels.

I noted that a sirloin of beef, which should have produced approximately twenty orders of roast sirloin of beef, was not showing proper results. I questioned the chef, who argued that the required number of orders was sold. I assured him that only six orders were reported sold. As the argument of "what was wrong" continued, the maitre de hotel happened to step in. He also was of the opinion that approximately twenty orders were sold. However, by a re-check by their own auditor, it was found that six orders were actually sold to guests and two orders not paid for were served to officers, thus showing a discrepancy of twelve orders. I felt certain that both the chef and the maitre de hotel were honest in their opinion. *Nevertheless*, the whole sirloin could not be accounted for, and was no doubt consumed by some one in the kitchen not entitled to this expensive meat.

To check food supply, incoming and outgoing,

has been my business for a number of years and our services are utilized by some of the larger hotels, clubs and restaurants in the country.

The system we advocate an employ is simple, when fully understood, but somewhat intricate to the outsider. It maintains a direct daily checkage on food purchases, daily store-room issues, and sales. Since appearances are often misleading, the control of food, if properly maintained, results in being able to show to the chef, steward and manager conditions as they actually exist from day to day. It is an analytical scheme through which a hotel arrives at the true status of its kitchen and dining room activities. It determines from day to day the percentage of loss or profit, it presents a complete and detailed operation of all sub-departments of the kitchen, it measures cost, consumption, and over-production.

We in the food business have discovered that a short loin, for instance, weighing forty pounds will produce only 17 or 18 pounds of steak meat; that a roast beef weighing 38 or 40 pounds will produce only 13 to 15 pounds of real roast beef; and that a 5 pound fowl produces approximately 1 pound of light and dark meat.

Take the final item and go deeper into the question of food control and distribution. This same fowl in a first-class hotel will provide only four chicken sandwiches. The fowl costs \$1.60. The sandwiches at fifty cents each brings \$2.00, in sales. But—and here is a pretty problem—add in the cost of bread, butter, mayonnaise and what have you? What becomes of the 40 cent profit? It dwindles materially. Do not forget the general overhead must also be considered. This overhead is probably 45 cents of each dollar sale in a first-class hotel. Without going into a lot of figures, with which you deal daily, let me say that frequently the loss on the sale of the four sandwiches amounts to 70 cents, if by-products are not utilized.

If it were not for the better results secured in the pantry, from which oysters, green salads, coffee, tea and all uncooked foods are sold, the commissary operation would be still more unprofitable.

I have cited these figures to provide a glimpse into the great waste problem every restaurant or hotel kitchen faces in the course of a day, if a hotel is to give adequate service, the best of qualities and still produce favorable results.

And all this reverts to a question of raw ma-

terial and that alone. That is the thing to control. That *IS* food control. Trying to allocate the pay roll to the various groups of food immediately complicates matters. It has been done but only in rare cases does it work out with success.

Concentrating on the raw material is the vital and important thing. You should employ a complete system of requisitions on the storeroom, tabulating the daily costs in four or five departments, namely: kitchen, pantry, pastry, ice cream, bake-shop, and dining room butter. These departments are further divided into several groups of various commodities, as for instance, in the kitchen proper—fish, roastbeef, lamb and mutton, poultry, eggs and so forth. The pantry department is charged with mainly uncooked food, such as oysters, salads, coffee, tea, etc. The pastry shop is charged with all materials in the preparation of pies and pastries, while the bakeshop is charged with all items used in the preparation of bread and rolls.

The sales are abstracted from the dining room checks, and are grouped in corresponding departments, as mentioned previously. By dividing the cost of each group into the gross profit of that same group we arrive at the percentage of profit on cost, which is the standard of all our comparisons.

If a small leak occurs and it is not stopped at its source, it might result in a considerable loss at the end of a month or a year.

The management expects the best results from chefs and stewards, but does not always provide them with the best means to accomplish the best results. At present, I know of no better means than *food control*.

In this connection, should any of you be interested in the detail of food cost accounting, I would suggest that you read the book. "Hotel Accounting,"—a book published by the Ronald Press Company, New York, the authors of this book being two members of our firm, Horwath and Toth.

I am reminded of a case which occurred some time ago. I noticed that the sales of a certain item in a large hotel totaled \$1,900, with a corresponding cost of \$1,000, during a single month. The following month this same item showed sales of \$1,700, and a cost of \$1,200. Something appeared to be wrong. In the first month the sales percentage was 90% and in the second month the sales percentage was 41%. Here was an approxi-

mate difference of 50 points, or a loss of over \$200. Upon investigation, it developed that during the second month when the loss amounted to \$200, 97% of the commodity was purchased out of town and 3% locally, while in the first month 80% was purchased out of town and 20% locally. This may not reveal anything to you, ladies and gentlemen,—but, just a moment—if you note the purchasing the first month was gauged according to the sales, while the second month, this fact was somewhat overlooked. In other words, I want to bring out that it is a vital thing at all times to buy on the budget plan, namely, according to past performances or anticipated sales, and if the supply should happen to be insufficient have certain dealers that can supply the contingent shortage of supplies on short notice.

Another hotel found that of a whole carcass purchased, only the hind-quarter was being used for guests. The fore-quarter, unused, was diverted to feed the help. The whole carcass price for this particular hotel was excessively high. We studied the situation for a brief time and then recommended that the guest-quality hind-quarters be purchased separately, and that local purchases of fore-quarters for help consumption be purchased at a lower price.

This cut down a certain unseen element of waste and centered attention on the guest distribution of the quality hind-quarters. This is just one of the many items to be watched with the greatest of care when applying the principles of food control.

I might also give you another illustration in connection with a case that occurred while I was in one of the southern states. A bill sent to a hotel charged two short loins weighing 120 pounds. As I checked it, the thought occurred that the bill should have read, "three short loins," at the same gross weight. Naturally, my interest was aroused, and I checked up the bill with the store-room clerk. He said it was not a mistake. I could not quite see the logic in that transaction and asked to see these short-loins. They did weight 60 pounds each, but were really full loins. It so happened that the hotel had purchased full loins for the first time, but it was billed as short loins at short loin prices, when it should have been charged for full loins at full loin prices, which are lower. However, the error was discovered, and the credit to the hotel was properly made.

If this were another item, it might not have been detected on the bill, but would have been reflected in a poor showing for that particular commodity at the end of the month, as compared with results obtained by other establishments operating under similar conditions. This feature of comparison is a valuable asset, inasmuch as most things in life are comparative, one of the advantages the outside accountant has on the inside man is this: he sees how the other fellow operates and thus is in an excellent position to notice irregularities or fluctuations which might be overlooked entirely by the inside accountant.

I recall this point of checking by a disinterested party a few years ago when I was in the employ of a New York Hotel. My reports were audited by a certified public accountant, and I afterward spoke to the hotel management about the seemingly useless expense of such an audit. I assured my employers that I could do this very thing myself, and was politely told, "Well, now, Mr. Jorgensen, we will not trouble you with such details." In later years I realized just why the Manager spoke as he did.

There is a certain technical side to this system of food control, and it must be maintained with precision or the entire system is thrown out of balance.

Frequently, chefs and stewards who are concerned chiefly with the preparation and proper presentation of foods, have no patience with figures. Figures to them are arithmetic and they tell you they are not fond of arithmetic. They just will not face figures and will not take pains to learn the system of accounting losses, profits, wastes, and so on, by making written tabulations, and therefore one of the main points in food control is to talk the language of the chef and the steward.

If they will listen to talk, I find that by taking them aside for a few minutes each day, explaining the costs of the food items, the importance of the proper economic preparation of them, have proved profitable and beneficial. Frequently, they use a point in conversation which would not be apparent to them from studying figures, however arranged on paper.

Extravagance is one thing that the food business will not permit. If the hotel or restaurant proprietor permits extravagance, then the figures are bound to show "red."

GOVERNMENTAL BUDGETARY ACCOUNTING

By JAMES H. HACKNEY
St. Petersburg, Florida

(This article was crowded out last issue. In making comparisons refer to the April Bulletin pages 7 and 8.—Editor.)

A Municipal Accounting System that reduces the cost of bookkeeping fifty percent and gives information that is impossible to obtain by the old pen and ink method without enormous expense.

This manual features the installation of Budgetary Accounting for the City of Punta Gorda, Florida, showing briefly by consecutive steps the division of finances and the installation of the system.

This system is operated by the Burroughs Automatic Posting Machine and is so designed that it will produce an accurate and permanent record of all the financial facts that occur, segregating the information into appropriate units, giving any city a complete analysis of each unit or department.

The system is complete double entry with necessary control accounts and is substantiated by a properly prepared budget in balanced form before the set up is made.

General divisions of the City's finances are made into four separate ledgers which are all carried in one tray, but which are segregated by proper celluloid and metal indexes. The four divisions are as follows:

- No. 1. General Accounts and Budget Control.
- No. 2. Utility Ledgers and Controls.
- No. 3. Assessment Bond Ledger and Controls.
- No. 4. Capital Fund Ledger and Controls.

Each of these ledgers has its Assets, Revenue Accounts, Expenditure Accounts, Liability Accounts and Surplus, therefore, each ledger balances within itself.

Taking the ledger as they appear above, a brief explanation will be given of each, No. 1 ledger being the general operating ledger and budget control requires more explanation than the other three.

A skeleton of the accounts operating in ledger No. 1 are as follows:

- #1. Bank Accounts.
- #2. Receivables.
- #3. Other Assets.
- #4. Payables.

- #5. Revenues Collected.
- #6. Budget Expense Control.
- #7. Subsidiary Departmental Accounts.
- #8. Budgetary Control Accounts.

The last four accounts are those accounts which will require more detailed explanation than the others.

Before setting up the accounts the budget for the year must have been adopted because the maintenance of the budget becomes one of the most important parts of the entire accounting system. The departments for the City of Punta Gorda are divided into twelve units, each department or unit being allowed a certain portion of the annual budget, as follows:

#1. Administration Department ..	\$18,023.20
2. Public Safety Department ...	4,400.00
3. Public Protection Department	7,780.00
4. Health & Sanitation Dept.	5,970.00
5. Sanitary Sewer Department ..	5,000.00
6. Street Department	22,299.02
7. Park Department	2,000.00
8. Street Lighting Department ..	11,000.00
9. City Planning Department ..	2,000.00
10. Publicity Department	1,000.00
11. Cemetery Maintenance Dept. ...	500.00
12. Bond Debt Retirement Dept. ..	24,678.00

Total Budget for the year\$104,650.22

This is part of ledger #1 but is segregated in the rear of the machine set up by division tabs being numbered one to twelve. The first account in each division is a control account with the budget allowance placed thereon as a credit. The other accounts are the detailed expenditure accounts, the total of which is also charged against the control account. This gives the balance of the budget available by departments, also the detail of expenditures of each department. A master control account over the budget appropriation is also carried under the budget control division which shows a credit of \$104,650.22 at the beginning of the year and is reduced daily by the total charges against the twelve departments.

SUBSIDIARY RECORDS

In every accounting system there has to be sufficient subsidiary information in order to back up the general accounting system. With this system the cash collected is as recorded on the receipt issued to the tax payer for the money collected. All cities use some form or other of receipt for the various sources of revenue collected.

The City of Punta Gorda has a receipt form for taxes collected, current year, delinquent taxes, licenses, fines and forfeitures, water charges and a miscellaneous receipt form for other sources of income. These receipt forms are the original entries from which the machine system analyzes by funds, the daily transactions.

On the expenditure side of the accounting plan there has been devised a special voucher known as Form #5 which is used in connection with the mechanical budgetary control system of accounts that is entirely different from the old forms. This form controls every charge against the twelve departments enumerated above (see copy of form). This form is made out in duplicate when an invoice is received or a contract let. A copy of the invoice or contract is securely attached to the duplicate copy while the original becomes a bookkeeping posting voucher. After these vouchers have been duly approved for payment (already being charged to the proper departmental account) they are filed (the duplicate alphabetically while the original posting voucher is filed numerically). These vouchers constitute a complete detailed record of the entire business as to expenditures. These vouchers are first posted to the various departmental expenditure accounts, then to the budgetary appropriation control account, then credited to vouchers payable, and then filed for payment. It should be noted that the budget is charged with an account before it has been paid, therefore, reflecting the true condition of the budget at all times, as it should, in other words, the records are kept upon an accrual basis and the monthly comparison of expenses can be easily obtained from the records.

In this system duplicate work is eliminated. Vouchers, records, journals and cash books become obsolete. The only hand writing necessary is the receipt that is issued to the tax payer and the journal voucher #5 that is made out for each invoice received. In the pen and ink bookkeeping system an adding machine is always necessary. While you are adding the same items with the pen and ink system you are posting the items with the machine system. A machine operator can take care of five times the amount of bookkeeping that the pen and ink bookkeeper could possibly handle. With the systematic processes of posting by machine method a limited knowledge of the science of accounting only is required.

CLASSIFICATION OF ACCOUNTS

A complete and scientific classification of accounts has been adopted that segregate every element to the account which is very descriptive, for instance 6-B-3 signifies the following:

6 Signifies the Street Department, B indicates that it is contractual service and 3 the kind of service acquired, namely, advertising for the street department.

The installation of a standard method of classifying accounts precludes the handling of any transaction unless it has been correctly coded. Such things as "General, miscellaneous, sundry, incidentals, etc." are entirely eliminated from this system of accounting. Each account speaks for itself and no account becomes a dumping place for items that the bookkeeper cares to throw in. Nothing that is expended by the City can be intentionally or unintentionally thrown into an account that means nothing to the person who examines the reports. No account in the entire City can be favorably used for hiding or sheltering irregularities. It would require five or six times the assistants by the pen and ink method to obtain the information that is easily available by this modern budgetary system. The system is always in balance and there is no more additional work after the end of the month than there is on any other day. The books are up to date on each day and in balance. The books are always upon an open basis and the books never require closing for information. The information that is available daily is practically the same as that which is required by an expert auditor at the end of the fiscal year. The statements and reports that can be taken off from the ledger in a few minutes would take weeks for an expert auditor to prepare if kept by the old method.

AUTOMATIC POSTING SYSTEM

It is true that certain special forms are required in machine bookkeeping but the cost of these forms is far less than the usual forms and books required by the old pen and ink method. A proper installation of the Automatic Mechanical Posting System means a real investment for any town or city and should be highly recommended where the annual budget amounts to fifty thousand dollars or more. A striking feature of the Mechanical System is its flexibility regardless of the peculiar situation or circumstances that may be evident in a certain city.

To prove that this is a mechanical age the following is a brief history: Before the typewriter letters were written by hand; before the adding machine adding was performed mentally; This is an era of advancement in bookkeeping and the bookkeeping machine is the final answer to bookkeeping difficulties. The automatic bookkeeping machine is as much an advancement over the pen and ink system as the automobile is over the horse and wagon.

There is no financial transaction that can possibly arise that cannot be properly coded, handled, examined and visualized by this method which is the surest method of final results in accounting as it stands today. The amount that would be saved by any city on the budgetary allowance items in one year would more than pay for installation of this modern budgetary accounting system, therefore, no additional appropriation should be required by any city in placing their records upon the modern basis. Where it usually takes eight hours per day to post the records by pen and ink any intelligent person, regardless of bookkeeping experience, can easily post all the items in thirty minutes by the Mechanical Method.

The forms used with this system are as follows:

1. Machine Posting Ledger Sheet.
2. Classification of expenditures as to object.
3. Machine sheet, receipts all sources.
4. Summary of total daily cash collections, all ledgers and funds.
5. Journal voucher payable.
- 5-a Journal voucher payable jacket.
6. Machine vouchers payable.
7. Machine summary of vouchers payable.
8. Assessments fund, receipts and assessments.
9. Journal voucher and interdepartmental transfers.

This system has been installed by the writer in the Cities of Tarpon Springs, Duedin, and Punta Gorda, Florida, and each have heartily endorsed its superiority over other systems.

INSTRUCTION FOR BANK EXAMINATIONS

(Continued from page 3)

the auditor himself, or are properly confirmed by the Clearing House for correspondents.

The examination of demand loans and the collateral therewith is one of the most important branches of the work, and many defalcations have

been hidden by the failure to indorse partial payments. The only absolute way of ascertaining the correctness of these loans and collaterals, is to send out a memorandum to each borrower setting forth the amount of loans and collaterals held as on the day of the commencement of the examination. If such a thorough proof is considered necessary in the case of the institution under investigation, the customer's confirmation should be returned addressed to the auditor. The possibilities of raised stock certificates must be borne in mind. Amounts may be changed from a small number of shares to a larger number and used for fraudulent borrowings.

A thorough examination of a trust company must embrace the trust, safe deposit, and other departments which may be conducted by the company under inspection. The examination of the securities in a trust department is as important as the examination of the banking department. The distinction between a bank and a trust company is well defined. The functions of a trust company are largely found in their fiduciary capacity. In their banking affairs they enjoy certain advantages over banks, being permitted, for example, to make loans on real estate, which is prohibited to the National Banks. (This operates in all locations excepting those affected by the McFadden bill.)

Often the market value of investments is largely in excess of the book value. Real estate owned, and furniture and fixtures are also often carried at less than their actual value. Such conservative figures hide secret reserves which are favored by careful bankers. Nevertheless, the abuse of secret reserve must be guarded against despite the fact that a balance sheet is not and does not pretend to be a statement of officially determined facts. It is merely a conservative estimate of a financial condition which by its very nature cannot be accurately determined. As evidence of this fact, it may be mentioned that few banks carry any reserve for unearned discounts, although this is a considerable item with large institutions.

In verifying the accounts of foreign banks and bankers, examine the securities held abroad, long drafts drawn on foreign cities, time bills, acceptances, finance bills, date bills, customers' bills, commercial credits and contingent liabilities assumed by indorsements or guarantees. In America it has unfortunately been customary to show the balance of the foreign department as one

item on the balance sheet; recently the lessons learned from Europe have stimulated the large institutions to consolidate the balance sheet of the Foreign Department with the general balance sheet, and also to set up the contingent liabilities with their per contra assets as is the European practice. In this connection, it must not be forgotten that, despite the general rule of good banking that a bank may neither guarantee nor become surety for its customers, a bank becomes primarily liable for the payment of a draft when it lends its credits by accepting time paper.

THOROUGHNESS OF EXAMINATION

It was formerly considered that if an auditor had verified the assets of an institution and found them as stated, he had ascertained that the institution was solvent, and that he had completed the work required of him. However, auditors are no longer satisfied unless they have also verified the liabilities. The accounts with other banks have to be verified by correspondence, and the replies are mailed direct to the office of the auditor.

Deposit accounts are a fertile field in which to detect willful as well as inadvertent wrongdoing, because defalcations and also false balance sheets are the results of manipulations of the individual deposit accounts. The dormant accounts should receive especial consideration and, if the examination is to be a thorough one, letters should be sent to obtain the pass-books of all the prominent accounts and their balances should be verified. It is not possible in an ordinary examination to verify all the individual pass-books for several reasons, the principal ones being the volume of work such a method would require and the inadvisability of arousing depositors' suspicions and injuring the bank's patronage by asking to have all the books sent in. The pass-books of the larger depositors should be frequently balanced. By keeping a list of the books inspected during the course of an examination, it is possible during a period of years to examine all the accounts. The auditor should assure himself that an internal system of checking balances prevails in an institution. The present method of many banks of preparing monthly statements of depositors' accounts is superior to the pass-book settlement, because it enables the auditor to verify all depositors' balances on the same day from the confirmation of the correctness of the accounts received from the depositor himself, this being the best method of insuring accuracy.

The rudimentary precautions of an effective system of checking records may be formulated in the following three fundamental rules:

1. No clerk should have access to the books recording entries which go to check the entries made by that clerk, i. e., tellers should not be permitted to keep or assist in keeping any of the ledgers or checking off of trial balances thereof.
2. The clerks should be shifted about at frequent intervals, so that fraud, even if committed, may be easily detected by a different clerk going over the same account.
3. No cash entries (transfers, for example) should ever be made without especial authority, confirmation of which is usually evidenced by the initials of the officer authorizing same.

The test of an accountant's competency is his ability to judge of the correctness of items by an extensive testing—not necessarily of the items themselves, but of their totals. The responsibility of verifying the bank accounts rests not only with the safe-guarding of the interests of the stockholders, but in offering to the public a guarantee of the accuracy of the records. Precaution must be exercised to discover the existence of duplicate pass-books. In some institutions the old custom of use of duplicate deposit slips and the writing of the details of the checks drawn (i. e., numbers, dates, etc.) in the pass-books is an effectual preventative of this kind of fraud, notwithstanding that such a system largely increases labor and is too cumbersome to find favor upon the stress of business of a large modern bank.

From the foregoing imperfect sketch of an auditor's duties it may be seen that the solvency of an institution and the honesty of the management and employees are thoroughly tested during the examination by each phase of the investigation. For obvious reasons it is deemed undesirable to enlarge upon the methods of defaulters.

POLICIES AND TENDENCIES

In order that the auditor may convince himself that the policies and tendencies of the institution are for the maintenance of the principles of safe and sound banking, he must not only have a broad comprehension of the affairs of the institution, but must have detailed information on numerous subjects.

Arranged categorically and regardless of a seeming repetition of topics, answers to questions

similar to the following, enable the auditor to form a just opinion of the administration of the bank:

1. Were loans made during the period to the directors (or trustees), officers or employees?
2. Are there any advances either direct or indirect upon shares of the stock of the institution?
3. What is the value of the notes which are past due?
4. What is the estimate of the value of single name obligations?
5. Are there any excessive lines of credit?
6. Have financial statements been obtained from doubtful borrowers? Are they current? Particularly with reference to unsecured borrowers or Community Loan accounts.
7. Are there acknowledgements in writing admitting the validity of large borrowings made by the makers or indorsers?
8. Are the cash reserves always maintained?
9. Are the securities carried at a figure in excess of actual market value?
10. Are the margins on loans sufficient?
11. Are the margins within conservative and legal percentages of appraised values? Particularly with reference to single securities.
12. Are the officers and employees under sufficiently heavy bonds?
13. Are the directors' (or trustees') and committee meetings regularly attended?
14. Do the minutes of the institution indicate that the law is being obeyed and that its provisions have been enforced?
15. Do the expense accounts accurately reflect the salaries and other financial operations?
16. Are the disbursements properly vouchered?
17. Was the last closing of the profit and loss account on a uniform basis with the previous bookkeeping?
18. Is the income upon loans and investments at the rates shown by the ledgers?
19. Are the safes secure, and are the premises properly sentineled by watchmen?
20. In case of disaster requiring outside financial help, are there any resolutions on the minutes providing for such assistance?
21. Does the bank have the necessary books, and are they well kept?
22. Are the bookkeepers and clerks frequently changed from one position to another? Is the bookkeeping properly divided among the employees?
23. Are daily cash balances and frequent trial balances of the ledgers, loans, etc., made?
24. What is the nature of the accounts of the employees which are kept in the bank?
25. What is the security upon overdrafts and other certifications?
26. Are the officers careful of the small things which count for good banking practice, such as proper filing, proper cancellation and posting of stock certificates, paid certificates of deposits, paid officers' checks, indorsement of partial payments on loans, etc.?
27. Are the computations of interest properly verified by another clerk?
28. Are chemical or knife erasures on the books very frequent?
29. What is the method of requisitioning the supplies, particularly such items as loose-leaf sheets or cards?
30. What supervision exists over the custody of pass-books?
31. Are the signature cards occasionally checked against the names on the individual ledgers, with the purpose of disclosing fictitious accounts?
32. Is there official written authority for the important acts of the employees of the bank?
33. Do the officials receive departmental reports?
34. Are the original slips which furnish the authority for debit and credit entries authorized?

SAFETY AND SOUNDNESS

An auditor, when preparing to report upon an institution, must have ascertained the general character of its business and the personnel of its officers, and obviously the employees should not know when the examination is to be made. To limit the making of loans either to friends or enterprises in which the bank's officers are interested would be a great weakness in the management of a bank, nor is it possible for bankers to be too careful with the investments of their trust funds. The funds of a commercial bank should always be loaned upon short time. Notes carried by a bank and continually renewed should be scanned with suspicion by the auditor lest the makers cannot pay when so requested. Every bank should insist upon the payment of a part of the debt on each renewal, unless the loan be secured by ample collateral. Past due notes or loans and overdrafts are neither indicative of a healthy nor prosperous condition. Successful bankers and

bank auditors are opposed to past due notes, overdrafts or cash items of long standing.

Much importance attaches to the position of the directors. It is the directors who elect the officers and who should decide the policy of the bank. There is a feeling that a director should not be a borrower from his own bank, but a director should be given the same consideration he would receive if he were not a director, although he should himself insist upon giving abundant security and should keep his loans within the limits prescribed by law.

AUDITING DEPARTMENT

Has it sufficient authority and does it make proper and periodical examinations?

SENATE TO CONSIDER BILL FOR REDUCTION OF TAXES ON MAY 3

As we go to press—our committee reports that: Senator Smoot, chairman of the Senate Committee on Finance, announced on April 27, that he hopes to have the Senate begin consideration of the tax bill (H. R. 1) on May 3. The bill as it has been agreed upon by the majority of the Committee call for reductions in taxes totaling \$203,000,000. Minority members are contending for amendments which would bring about a total reduction of \$333,000,000.

Senator Smoot's announcement was made following an executive meeting of the Finance Committee on April 27 during which he said the re-drafted provisions of the administrative sections were considered.

"We will meet again on Monday (April 30) and go over the print of the new bill," the Senator said, "and will report it to the Senate on Tuesday. It will be taken up on Thursday. The Boulder Dam bill may still be before the Senate but I have an agreement to give tax reduction, the right of way and I expect that the bill can be disposed of by the Senate within a week."

President Coolidge believes that the tax reduction bill reported by the Senate Committee on Finance providing for a cut of \$203,000,000 is fairly satisfactory, although he thinks it a mistake to repeal the automobile taxes because the Government might look to these taxes as a source of revenue for new road construction.

STATE TAX IMPROPER ON LONG TERM LIENS

Classification for Taxation Held to be Unconstitutional

The Supreme Court of the United States on April 30 rendered a decision in the case of Louisville Gas & Electric Company v. Coleman, No. 70, involving a consideration of the question of classification for the purposes of taxation.

The constitutionality of the Kentucky statute imposing a tax upon mortgages where the indebtedness does not mature within five years, and from which tax mortgages made to building and loan associations are exempt was the issue presented.

The court by a five to four decision held the statute is unconstitutional for the reason that the classification established is arbitrary in violation of the equal protection provision of the Fourteenth Amendment to the Federal Constitution.

HERE AND THERE

We acknowledge with pleasure a pleasant call from Mr. Ernest Kritter of 1674 Broadway, New York City, who was in Washington on Tax matters pending before the U. S. Board of Tax Appeals.

Mr. I. Sellinger, 1452 Broadway, New York City, made this office a pleasant call while in Washington on business matters pertaining to the perfection of a copyright of some special accounting forms which he has worked out.

We had the pleasure of a friendly visit with Mr. Robert A. Wright, 126 West Mt. Pleasant Avenue, Mt. Airy, Philadelphia, Pa., while he was here in Washington on tax cases pending before the Advisory Board. Mr. Wright is an expert on fiduciary claims and he has been successful in handling many such claims before the tax department.

Mr. Melville D. Thomas, accountant and auditor of Allentown, Pa., made this office a friendly call while in Washington on important commercial business.

The bookkeepers, stenographers and accountants union of New York has issued a public statement denying the stories circulated throughout the city that it had any trouble with the Amalgamated bank. The statement reveals that there never was a strike and that the union had no grievance with the labor bank. It is reported that the constitution of this and other unions in Manhattan and Brooklyn will be changed and rewritten so as to make it impossible for avowed Communists to remain in the unions or to cause them trouble by organizing left-wing groups.

The fortieth annual meeting of the Railway Accounting Officers Association will be held in Atlanta, Georgia, May 1st to 4th inclusive. One of the principle subjects up for discussion is the Revision of the Railway Accounting System.

The District of Columbia Bank Auditors met on February 23rd and organized the D. C. Conference of Bank Auditors and Comptrollers. The officers elected were President, J. D. Faber; Vice President, R. G. Marx; Secretary-Treasurer, Ralph Endicott.

Two out of a class of 121 who took the Ohio C. P. A. Examination in the fall of 1927 passed. They were: H. M. Cryer, and H. W. Hooper. Messrs. L. D. Lehn of Cleveland and I. S. Silbert of New York were granted certificates by reciprocity.

Lloyd R. Bock, formerly with the Trans-Continental Freight Bureau of Chicago has announced that he will join George Parker, Certified Public Accountant with offices at 407-8-9 Southern Surety Building, Des Moines, Iowa.

The District Chapter of the National Hotel Accountants Association held its regular monthly meeting on the evening of April 20th at the Mayflower Hotel. The principle speaker was Arnold Jorgensen and his subject was "Food Control." The next meeting will be held on May 18th at the Wardman Park Hotel. The subject for discussion is the "Profit and Loss Statement" and the principle speaker will be Mr. C. J. Mack.

At the annual meeting of the Toronto Chapter of the Canadian Society of Cost Accountants held February 22nd the following officers were

chosen: Chairman, J. E. Carruthers; Vice-Chairman, D. C. Patton; Secretary, J. R. Pidduck; Treasurer, H. A. Shaich.

Mr. Jardine cost accountant for the United Drug Company was the speaker of the evening.

Marion D. Fulton of Springfield, Mass., writes: Dear Mr. Hutchison:

I shall acknowledge this minute receipt of your cheery reminder. It is indeed rare that "reminders" elicit a hearty laugh, but this one did. I am going to "cop" it for some of my *slow ones*. * *

John Francis Marthens, Jr., of Pittsburgh, Pa., writes:

Beg to acknowledge, with extreme pleasure receipt of your letter dated 11th enclosing life membership card number 932 in the Association which I have greatly admired since joining the ranks and wish to say that it will always be a pleasure to acquiesce in anything for its betterment.

With many thanks and the wish of your future success.

D. G. Keisler, Newark, N. J., writes:

Accept my many thanks for life membership card No. 95 enclosed with yours of April 5th.

I trust I will prove worthy of it and furthermore will do all possible to further the interest of the National Accountants Institute.

I am endeavoring to arrange my time so that I will meet with you in Toronto on June 4th.

Mr. Charles D. Hammel former chairman of the U. S. Board of Tax Appeals addressed the Maine Society of Certified Public Accountants at Portland on March 3rd, on the subject of taxation.

University to issue A. P. A. Degree. The University of Havana, Cuba, is to confer the title "Authorized Public Accountant" on students who complete a three year course in the higher school of Commerce of the University.

Commissioners John D. Karel and Edwin F. Sweet were named by Mayor Elvin Swartnout of Grand Rapids, Michigan, to work with City Manager Fred H. Locke to prepare a plan for obtaining cooperation among Michigan cities in establishing a uniform system of accounting and cooperative city purchasing. The plan when outlined will be presented to the commission.

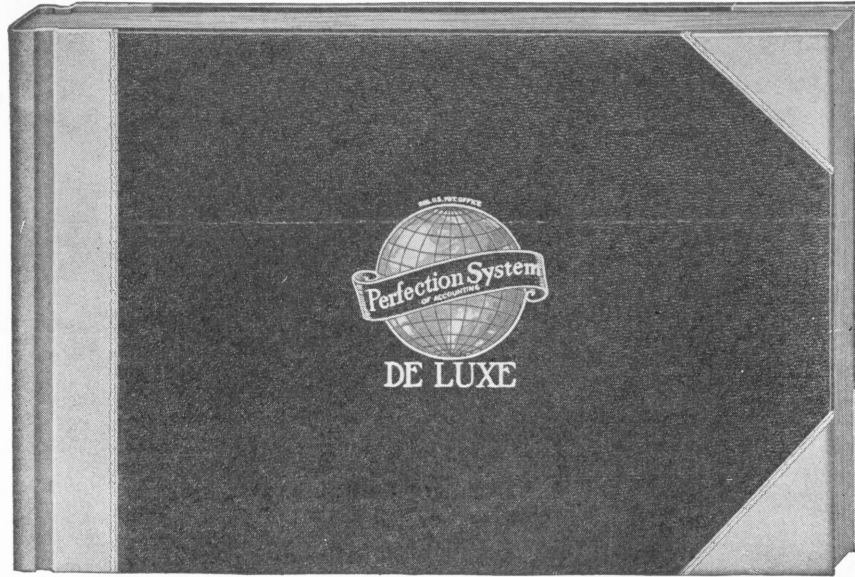
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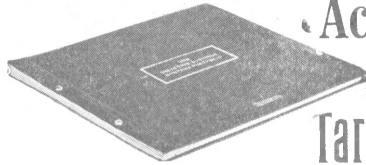
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Arthur E. Blumenschine, Newark, N. J., writes:

It is with exceedingly great appreciation that I wish to acknowledge receipt of my life membership card No. 65 in the National Accountants Institute. It is very gratifying to see the interest shown and the progress being made by the members of our Association, and may I wish you hearty success in this new enterprise.

Hugh L. Wilson, Sidney, Ohio, writes:

I wish to thank you for membership card No. 28 in the National Institute, and also for life membership card No. 258 in the National Association. Please convey to your associates my appreciation.

If at all possible I will be in Toronto June 4th. Wishing the association its well earned success.

The Tennessee Institute of Accountants with headquarters at Memphis, Tennessee, has filed an amendment changing its name to Tennessee Society of Certified Public Accountants.

Out of a total of 746 certificates issued to certified public accountants since 1903 the first year certificates were given, eleven women have successfully passed the rigid examinations and three

of this number have been graduates of the University of Illinois, a survey of the records of the Illinois Society disclosed.

Ethel Mary Holland, Chicago, has the distinction of being the first woman graduate of the University of Illinois to receive a C. P. A. Certificate. She received this signal recognition in 1920 and the number of her certificate is 260. Mrs. Carolyn Carmen Murphy was granted her's in 1923, being number 451, and Ruth Dorothy Peabody, Urbana, received her's in 1926, holding certificate number 683.—*Urbana Courier*.

CHANGE OF ADDRESS

D. Carroll Ellmore, formerly of 1315 South Michigan Avenue, Chicago, Illinois, is now nicely located at 317 National Security Bldg., Sheboygan, Wisconsin.

Elias Berger, Public Accountant and Auditor, announces the removal of his offices to larger quarters, 1440 Broadway, New York.

Mr. Thomas Walton has notified us to change his address from 981 Main Street, Riverside, California, to 1331 South Westmoreland Avenue, Los Angeles, California.

Fred S. Domes is now located at 801 Pudget Sound Bank Bldg., Tacoma, Washington.

N. A. Horndrup whose former address was 25 South Main Street, N. Y., is now located at 344 Archer Street, Freeport, N. Y.

Clifford J. Line has notified us to change his address from 512 Dewey Avenue, Rochester, N. Y., to 98 Vermilyea Avenue, New York, N. Y.

George W. Odell is now nicely located at 154 Spring Street, New York, N. Y.

Frank L. Wilcox and Company, Certified Public Accountants, announces the opening of an office at room 301 in the Nixon Building, Corpus Christi, Texas. The local office is under management of J. K. Culton. The office will engage in auditing, system, and income tax work, giving special attention to the preparation of certified balance sheets.