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By JAMES G. CANNON

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By A. LOWES DICKINSON, C. P. A.

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The Banker and the Certified Public Accountant.*

BY JAMES G. CANNON
Vice-President Fourth National Bank, New York.

Mr. Toastmaster and Gentlemen:

I feel very much at home in this presence this evening, as I have framed in my library a certificate, dated in the year 1890, showing my membership in the old Institute of Accounts of New York City, and the certificate further states that I am a certified accountant of the Institute of Accounts of New York. Consequently, I feel that I am not among strangers or in a strange land when I appear before you to say something on the subject of "The Relation of the Banker to the Public Accountant."

I have always been deeply interested in the subject of accountancy, and I assisted, as far as possible, the gentlemen who, in 1896, procured the passage of the law in the State of New York, "To Regulate the Profession of Public Accountants." In March, 1905, in an address at Atlantic City, before the New Jersey State Bankers' Association, I urged the bankers of this country to establish the custom of requiring statements of the financial condition of borrowers to bear the certificate of a certified public accountant, and in the same year I secured the adoption by the New York State Bankers' Association of a new form of property statement blank, in which the borrower is asked the question, "Have the books been audited by a certified public accountant? . . . If so, name and date of audit."

* Address delivered before the American Association of Public Accountants at Atlantic City, N. J., Oct. 22, 1908.
The Journal of Accountancy.

I have watched with a great deal of interest the passage of the certified public accountant laws in the various states of the Union, and assisted their passage where it has been in my power to do so. Therefore, I hope that you will bear with me, and remember that I am speaking as a friend of the certified public accountant, when I present some thoughts in connection with this matter, which may seem in a spirit of criticism.

During the ten years that the certified public accountant law has been in existence in New York State, 617 candidates have presented themselves for the examination under the law, and 409 of them have been rejected. In other words, about 66% per cent. of the men who desired to enter this profession during the first ten years of the law, failed to pass the examination. The total number of certificates issued up to and including June, 1907, by examination was 208, by waiver, 177, making a total of 385. Of this number, 54 were junior certificates, so-called, leaving the total number of full certified public accountant certificates issued in the State of New York for the first ten years, 331, 95 of which 177 were given by waiver, leaving 154 certificates as the result of the new law.

This, I believe to be a very unsatisfactory condition of affairs, especially so if the bankers and business men of the great State of New York are to depend more and more upon the work of certified public accountants, as the addition to this profession of only fifteen a year enables a few men to retain almost a monopoly of this business, which, to my mind, is not proper. There is certainly some reason for this situation, and I have made a careful examination into several points, I find that for the first ten years the members composing the Boards of Examination for Certified Public Accountants of the State of New York, with two exceptions have all received the degree of certified public accountant under the waiver, and of the fourteen men who have composed this board, one man has served for seven years, one man for five years, two men for four years, four men for two years, and six men for one year each.

A further study of those who were rejected shows that a large proportion of the rejections came through the topic of "Practical Accounting." 91 per cent. of the men presenting themselves in 1907 having failed on this topic, and an examination of some of the questions asked under this heading would make
The Banker and the Certified Public Accountant.

it appear as if they were purposely made so difficult that candidates would not pass. I noticed one question in particular where the candidates were asked to prepare an "Articulation" statement. This designation of a statement is not one of general use, and is probably a term applied by a particular accountant who had a share in the preparation of this problem. I made a careful examination of many of the other problems which the students have been called upon to answer, and they certainly are not clear and concise, and I believe that it would be practically impossible for one-half of the men holding certificates under the waiver to answer them satisfactorily. The examiners seem to have confined themselves to special problems which have arisen in their own line of business, which it is unreasonable to expect students to answer in a given length of time, and are, consequently, of little or no value in a general examination. What is wanted in New York State, I believe, is a far more comprehensive system of examinations for the degree of certified public accountant. There seem to have been altogether too many technical questions asked of the applicants for the degree, and many of these questions do not involve a real knowledge of accounting. It is this class of examinations which will produce certified public accountants who will only scratch the surface of things.

Examinations are required, and properly so, in all of the twelve states having state laws on this subject, and accountancy boards, but the time has arrived when this whole question should receive the attention which it deserves, and the accounting profession, instead of spending further time on the securing of certified public accountant laws throughout the country, should give their best efforts to the training of candidates for the degree.

As far as practical experience is concerned, three states, Colorado, New York, and Pennsylvania, are the only ones that require a period of time of practical experience, and I believe that the regulation in New York with regard to practical experience should be changed. Pennsylvania rules provide for two examinations, a preliminary and a final, and the registration in the office of a certified public accountant, or any recognized school of accounting, where the applicant can make preparation for his final examination. This is much better than the present
rule of New York, where the applicant must spend one year in the office of a certified public accountant before receiving his degree. I think this is a hardship to many men, and keeps good men from securing their degree.

Of the junior certificate issued in New York State in the last ten years, seven only were issued to men who were under the age limit, and from a careful examination of the time of these certificates, nearly all of these men would be entitled now to full certificates were it not for the fact that they are compelled to take a year in the office of some certified public accountant, which in many instances it is impossible for them to do.

I am calling the attention of the gentlemen of this profession present this evening to these few facts because it appears to some of us who are anxious to use the certified public accountant more and more, that the profession savors more of monopoly than it should, and the whole subject should be carefully brought before the Regents of the State of New York, and many changes made in the method of procedure and examinations, if the profession of accountancy is to take the place it deserves and secure the confidence of the business and of the banking community.

The bankers need your assistance in all directions, and the benefits to be derived from an examination of business concerns by a certified public accountant is of inestimable value to both, and when a statement of a concern’s assets and liabilities is presented to the banker, he gives it an added confidence from a knowledge that the statement has a true foundation. This confidence might exist even though such an examination was not made by a certified public accountant, but granted that it is made by an accountant selected by the banker, there is no question that his confidence in the statement is increased.

There is the further satisfaction to him of knowing that it is properly made and compiled, and that it is produced from books of account, capable of bearing out the condition submitted. But in recommending the accountant we must know not that he is simply a man who is capable of transcribing the books of a concern, but that he can grasp all the surrounding situations as related to the profit and loss account and other essentials which come from his examination of the results of trading, and
whether the items of plant, accounts receivable, and merchandise are taken at their true value. We must have more thoroughly qualified certified public accountants, who can give this added knowledge of the situation of firms and corporations, and the business should not be held in the hands of a few.

If we are to recommend that statements of borrowers from banks should have a certificate of a certified public accountant, we must have plenty of broad-minded, energetic men in the profession, and these men must make themselves attractive to those requiring banking accommodations, so that other benefits may accrue to the borrower entirely apart from the improvement in his financial standing.

A properly qualified public accountant should not only be familiar with the requirements as relating to the bookkeeping of a concern, but from coming in contact with all kinds and classes of men and businesses, he unquestionably acquires a most varied experience, and should be in a position to counsel not only as to how the books should be kept, but as to many other requirements in a properly equipped business. Contact, therefore, with a certified public accountant of the kind I am trying to describe, is frequently of inestimable benefit to the business man. I have known of instances where suggestions have been made by certified public accountants which have resulted in saving many firms from disaster. I have reached the conclusion that many failures have occurred because, through ignorance, the management was kept in the dark as to the true conditions, until too late to rectify them.

A large part of the value, however, to the banker, of an independent investigation by a certified public accountant must be a belief in the honesty and capacity of the accountant, and that is why I prefer an examination to be made by an individual accountant whom you can hold personally responsible, rather than by a corporation.

I am very anxious that the profession of the certified public accountant should be placed upon a broader and firmer basis, for it is my conviction that more and more statements submitted to bankers for the purpose of procuring credit, will be subject to confirmation by a certified public accountant, and this will be of inestimable value, not only to the banker, but to the honest borrower, by the elimination of the dishonest and disre-
putable, by decreasing the margin of loss to the banker, also resulting in a decrease of interest charges to the borrower.

It is not many years since it would have been considered strange to ask for a signed statement of assets and liabilities from borrowers, but this condition has now practically passed away, and no one now feels hurt at being asked to make such a statement. With the immense increase of the business interests of this country, it becomes more and more difficult for bankers and other creditors to have the close and intimate knowledge of borrowers which formerly existed, and from this increased business there is naturally an increase in the amount of commercial paper outstanding, and I believe that the advantages of an examination by a certified public accountant, and a certificate of the assets and liabilities properly authenticated, will be of great benefit to both the borrower and the lender due to the increased confidence which they will have in each other.

I am aware that the certified public accountant law is only ten years old, but it has been in operation long enough for its friends to see its defects and point them out for remedy, and if the profession is going to enlarge its scope of usefulness and broaden its activities, it must eliminate some of the errors of the past, and bring to bear upon its problems more practical common sense.

There is plenty of business for good certified public accountants who will not drag out a day's work to an unlimited time on the books of a concern, but who will do their business with vigor and dispatch, and handle their affairs with a broad vision.

We want first class men, we want them well trained in the profession, but I do not believe the present methods are reaching that end. They are deterring many young men from entering the profession, and I come here to-night as a friend and well-wisher to sound a note of warning and ask that this American Association of Public Accountants give this matter their best consideration. If you will do this you will have performed a great act of service to the certified public accountant.
Accounting Practice and Procedure.*

By A. Lowes Dickinson, C.P.A.

III. Relations with the Banker.

An important development in the relations of the Public Accountant to the Banker seems likely to result, partly from the provisions of the Currency Law passed by Congress last Spring, and partly from a report recently made by the Committee on Credit Information of the American Bankers' Association. The law provides that the National Currency Associations therein provided for shall have power to render available, as a basis for additional circulation, commercial paper held by the national banks.

The term "commercial paper" is defined as including only notes representing actual commercial transactions bearing the names of at least two responsible parties, and having no more than four months to run, and upon such paper it is provided that circulating notes may be issued to an extent not exceeding 75 per cent. of the cash value thereof. It is a curious factor in the banking situation that commercial bills as here defined have hitherto formed a very small part of the assets held by national banks, which consist mainly of one or two-name paper representing mere loans and not in any sense completed commercial transactions; and yet all authorities on banking practice have agreed that such commercial paper is the best class of asset that a bank can hold, and in European countries it forms, by far, the largest proportion of the total assets.

One effect of the present practice has been to reduce to comparatively small dimensions the operations of exchange represented by drawing upon a customer for the amount of his indebtedness. All Public Accountants will realize that Bills Receivable and Bills Payable, representing drafts drawn against products and accepted by the producer, are quite rare; and that

instead of considering that such a method of financing is especially sound and practicable, the desire of most commercial businesses is to claim that they have accepted no such paper, while there does not appear to be any similar objection taken to a large amount of pure loan paper given direct to their bankers in the shape of promissory notes. Another result of this state of affairs has been that institutions have grown up whose business it is to advance money on Book Debts, involving the borrower in a large amount of unnecessary expense and even then probably leaving little or no profit to the lender by reason of the great amount of clerical work involved in keeping a proper account of the assignment and collection of the actual debts which form the security for the advances.

Coincidentally with the passage of the new law, the Committee on Credit Information of the American Bankers’ Association has submitted a somewhat noteworthy report, in which an extension of the practice of discounting commercial bills is advocated in preference to the present more usual form of making straight loans, secured by what is in effect a promissory note; and coupled with this recommendation comes, entirely unsought and uninfluenced by the accounting profession, a strong recommendation that bankers require a report by a Public Accountant on the financial condition of those concerns whose paper they are asked to buy. While such examinations are not unknown, the competition between banks has prevented the practice becoming at all general; for, as bankers have frequently admitted, if they were to insist upon the production of statements certified by Public Accountants the prospective borrower would quickly remove his account to an opposition bank, and would there obtain all the accommodation he needed without any such “red tape” restrictions.

If the new currency law eventually proves to have re-introduced and made popular the old-fashioned, but highly practicable Domestic Bill of Exchange, it will, on this account alone, deserve the gratitude of the community.

The importance to the banker of the certificate which the Public Accountant can give him can hardly be over-estimated, provided, that it is clearly understood that the accountant is responsible in such cases, directly to the banker, even more than to his client, and provided also that the banker will assist account-
Accounting Practice and Procedure.

ants by drawing up a form of the statement which they would require to be certified, setting forth clearly and without the possibility of concealment all the essential facts which the banker requires to know. Such action on the part of the banks as is now contemplated, while it must tend still further to increase the work and the responsibilities of the Public Accountant, will, at the same time, aid the moral and financial well-being of the community, not only by preventing clear cases of contributory negligence, or even fraud on the part of borrowers, but also by reducing to a minimum their tendency to put forward only the most optimistic side of their affairs, and to slur over the bad features.

IV. Form of Accounts.

Another question closely related to the audit of accounts is the form in which they should be stated. It is the Directors who submit the accounts to the stockholders, and they have the right to decide upon the form in which those accounts shall be submitted, and to require the Public Accountant to certify to them in that form, or to state in what respect he finds them incorrect. The latter will have his own ideas as to the best method of stating the accounts, and is fully entitled to put his views before the company's officials and endeavor, in so far as he can, to mould their ideas to his; but he must remember that the object of the accounts is to set forth the "true financial condition" and that there is no stereotyped way in which this should be done. There is a good deal to be said for uniformity in the matter of the form of statement of similar companies, but this is a matter of convenience more than a necessity, and no preconceived ideas as to the superiority of one form over another should be allowed to interfere with the rights of the Directors or Managers to state the accounts in any form they please and to call upon the accountant to certify them or not.

The standard form of Balance Sheet, which has a great deal to be said in its favor, divides the assets into three classes, namely: Capital, representing the fixed investment in the property; Current, representing the assets which are being turned over and converted into a different form day by day; and Deferred, representing expenses incurred in advance for some succeeding period; and to these three is frequently added a fourth,
The Journal of Accountancy.

representing the assets held for special funds which may have been set aside out of profits or otherwise for specific purposes.

On the liability side a similar classification prevails, namely: Capital Liabilities, representing the Capital Stock and Funded Debt which have been contributed and remain fixed at any rate for a number of years; Current Liabilities, including Floating Debt, which have to be paid off in the ordinary course of business from day to day; Special Funds set aside for various purposes, such as Depreciation, Sinking Fund, etc.; and, finally, Surplus or Profit and Loss Account, representing the accumulation of undistributed profits. This form is that most commonly adopted here, each of the principal headings being again divided into such sub-accounts as may be desired. In England, however, the standard form is of a different nature altogether. Each separate class of asset is set out by itself in the Balance Sheet and arranged in the order of ease of liquidation—that is to say, the most fixed assets are stated first, followed by those which are slightly more realizable and ending with the most realizable of all, namely: Cash.

It is worth noting here that Section 21 of the English Companies' Act of 1907 (Appendix) requires the publication of the Balance Sheet of every company drawn up so as to show the general nature of such liabilities and assets, and how the values of the fixed assets have been arrived at.

Reference is made to these two forms because they are probably more widely divergent than any two Balance Sheets that will be commonly found here, while both classes are certified—and quite properly certified—as representing the true, financial condition by Public Accountants of the highest standing.

The same differences will apply in the statement of Profits, whether they shall be detailed or not, divided into one or more sub-divisions, or stated all in one total. The main and important question is: Are the Profits correct and does the method of statement correctly set forth all the material elements which go to compose them. The most satisfactory form will probably be considered that in which Profit and Loss Account is divided into three portions, known respectively as: Operating Account, Income Account, and Profit and Loss Account. The first portion will give the actual results of the operations of the property;
Accounting Practice and Procedure.

the second will contain the net operating results, and in addition any miscellaneous income derived from outside sources, and on the other side the charges against the total income, in the shape of amounts paid for use of any part of the operated property, losses on miscellaneous investments and other items of such character, together with interest on temporary loans and bonded debt; and in the third portion, or Profit and Loss Account, would appear the balance brought forward from the preceding year, the net surplus income or profit for the year after paying all necessary expenses and fixed charges, and on the other side the disposition of the resulting balance in dividends and other voluntary appropriations.

There is much variety in the class of items which are charged to this third portion of the account, and as the practice of charging to Profit and Loss in preference to Income is to be depreciated unless in exceptional cases, it is perhaps better to state generally what items may properly be so charged, with the inference that everything which does not come within this classification should go to either Operating Account or Income Account. Proper charges or credits to Profit and Loss may be defined as follows:

(1) Extraordinary items of receipt or expense not applicable to any particular year, such as profits realized on sales of property, or losses on sales or dismantlement of property, or due to its reconstruction. The loss in this class of cases is closely related to the renewal or depreciation charges on the same property, which should properly go to the operations of a particular year. Frequently a property is abandoned for purposes of reconstruction, which, if it had not been for such reconstruction, would have remained in service for a long period to come and have been maintained in a perfectly efficient condition at a small fraction only of the loss caused by its abandonment. In such cases it would seem that the proper distribution of the charges between the Operating Account and Profit and Loss Account should be to charge to the Operating Account so much of the difference between the original cost and the value at the time of abandonment as has not already been provided for through charges to Operating, and to charge the balance, namely the difference between the depreciated value at the time of abandonment and the scrap value realized, to Profit and Loss Account. This is a prin-
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ciple fairly easy of application, which might well be adopted in the various classifications which are now being put forward by Government departments for use by railroads and public utility corporations.

(2) Expenditures on improvements and betterments representing the creation of actual additional property. The propriety of charging these items to Capital Account from a strictly accounting point of view can not be denied; but where such expenditures, though resulting in additional property, are incurred, not for the purpose of increasing the earnings, but with the view only of reducing future operating expenses, it may well be doubted whether, as a matter of business policy, the charge to capital is wise or prudent. Such expenses may be looked upon rather in effect as advanced payment of operating charges, and yet not being operating charges they can not fairly be placed in the Operating Account. To charge such expenditures to the surplus resulting out of previous years' operations may be considered fair and conservative treatment.

(3) Discounts and premiums on bonds. Discounts and premiums on bonds are in effect an addition to or deduction from the interest rate paid on the bonds over their life, and as such should strictly be included with interest charges in the Income Account by proper instalments each year. In practice, however, it is frequently desired to write off the whole of the discount at as early a date as possible in preference to carrying it as a deferred and unrealizable asset for a long period of years, and no possible objection can be raised in such a case to providing for the full amount out of the surplus earnings of previous years.

(4) Discounts and premiums on stocks. The treatment of discounts and premiums on stocks, however, requires somewhat different consideration. In the first place it is somewhat questionable whether stock can be issued at a discount; and in the case of both discounts and premiums, the more proper view would seem to be that the stock is sold for whatever it will fetch, and that any discount or premium should be considered as a deduction from or addition to the par value of the stock on the face of the Balance Sheet.

Incidentally there is a great deal to be said in theory for requiring that the capital stock of a corporation should not have
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any specific par value, but should merely provide for so many shares, these shares being sold from time to time for whatever they will fetch. In fact, this is done at the present time by individual stockholders through the medium of the Stock Exchange, but the objection has always been raised to the absence of a par value for the reason that it would provide unlimited opportunities for improper manipulation by unscrupulous promoters. As long, however, as it is permissible, as it still is in may cases, either legally or by legal fiction, to sell stock at a discount, the prevention of such abuses hardly seems possible; and the present method of a fixed par value is no better, and in many ways a good deal more inconvenient, than the old method in force in the early part of the last century. As long as stock has a fixed par value it is better, theoretically, to treat premiums thereon as Receipts on Capital Account, but no serious objection can be raised to crediting them to Profit and Loss Surplus.

The above four classes of items would seem to cover all those which may or should with propriety be eliminated from the Income Account of a particular year, from which it follows that the common practice of charging to Surplus Account ordinary items of operating expenses which happen to have been omitted by accident from the preceding year's accounts is incorrect and misleading in that, over a series of years, it understates the total operating cost of the business. This is a feature in the form of the statement of accounts which might well receive more attention from the profession than hitherto.

V. Investigation for Purpose of Certifying the Profits and Determining the Purchase Price for a Business.

While an important part of the practice of a Public Accountant consists in the examination of the accounts of corporations for the purpose of the issue of additional stocks or bonds, or for the sale of the business, these reports almost universally have been made on behalf of and under instructions from the promoters or vendors interested in disposing of the property. In such cases the responsibility and the rights of the Public Accountant cease when he has submitted his report, and he is usually not consulted at all as to the means or methods by which the securities are offered to the public for subscription. In place of a reg-
ular prospectus giving the fullest particulars of the property, supported by reports and valuations of independent accountants, engineers, valuers, etc., and issued on the direct authority of the Directors of the new corporation and the bankers interested in its flotation, there is usually found a letter from the president of the selling or borrowing company containing bare statements of the alleged facts, with no supporting evidence of any kind. The bankers interested in the flotation relieve themselves of responsibility by a specific reference to the letter as their authority for the statements put forth, and no doubt they are thus legally, if not morally, safeguarded. The objections to this method of advertising public issues are very numerous and the following may be given as the most important:

(1) The president or other officer of the borrowing or selling company is necessarily biased in favor of the deal which it is proposed to put through, and represents entirely the company and its stockholders, and not in any way the public, who are being invited to furnish new capital.

(2) Very few of the important facts in connection with the assets and the earnings are within his own knowledge or have been made by him the subject of any special investigation.

(3) He may be deceived:
   (a) By his own excessive optimism;
   (b) By the excessive optimism of his subordinates;
   (c) By the mistakes of his subordinates;
   (d) By the frauds of his subordinates, or

(4) He may himself deceive:
   (a) By his own mistakes, or
   (b) By his own fraud.

The English practice, with reference to the issue of prospectuses, is worth a reference. Under the English Companies' Acts of 1900 and 1907 (Appendix), every company inviting subscriptions for capital is required to file with the Registrar of Joint Stock Companies a copy of its prospectus, or, if there is no prospectus, a statement in lieu of the prospectus, containing the following, among other information: the names and addresses of the Directors; the names and addresses of the vendors of the property purchased or proposed to be purchased or acquired; the purchase price, distinguishing the amount paid for Goodwill; the
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amount of commission payable for procuring subscriptions for any of the capital offered for subscription; the estimated amount of the organization and other expenses preliminary to commencing operations; the amount to be paid to the promoter and the consideration for such payment; the dates of and parties to every material contract, and the time and place at which such contracts may be inspected; the names and addresses of the Auditors; and particulars of the nature and extent of the interest of every Director in the promotion of the company or in the property proposed to be acquired. In addition, it is the regular practice in all cases, except that of an entirely new business not yet established, to incorporate in the prospectus a certificate of a Public Accountant, as to the earnings for a period of years, and frequently as to the value of the net Current Assets, where these are to be taken over.

Bankers interested in the flotation of new securities frequently, for their own protection, have required reports from Public Accountants, but it is seldom that these reports have been incorporated in the prospectus; although now there is a slight tendency observable to adopt this practice, and within the last year or two a few prospectuses of the kind so familiar on the other side of the Atlantic have been issued.

It would seem highly desirable that there should be included in every prospectus, or offer of stocks or bonds for sale, certificates of a Public Accountant as to the Profits, Current Assets and Current Liabilities, and reports by engineers or other experts as to the value of the Capital Assets acquired or to be acquired; and, furthermore, that the amount paid for Goodwill, which is largely represented by the optimism of the promoter, should be clearly and separately set forth in the prospectus and not, as is now almost invariably the case, covered up under the vague term "Cost of Properties." With such additional protection over that now given them, the public will gradually become aware of the fact that many of the so-called bond issues of the present day have little, if any security, better than that of common stock, and are often, in fact, saddled with all the risks of the business in order that common stock of no intrinsic value may reap the eventual profits.

In the belief that such certification by a Public Accountant must
form a large part of his practice within a very few years, the following outline of his duties in this respect may be of interest:

In the first place his responsibility is solely and entirely to the public. If he is not honestly satisfied as to the good faith of the promoters and as to the prospects of obtaining the expected results held forth in the prospectus, he should decline to be identified with it or to certify to any figures contained therein. In order that the public, as well as himself, may judge of the results, the period covered by his examination and certificate should be long enough to give a true reflection of the earning capacity of the business, or, if for any reason a sufficiently long period is not available, the reasons should be stated. In no case should the average profits alone be certified, unless the stating of an average in place of the separate years is of no material importance; but it will usually be found that where the promoters desire to have an average stated instead of the separate years' results, it is for the purpose of making a better showing than is really justified.

On the other hand, while the Public Accountant is bound to see that all material facts are set out in his certificate, he is equally bound to see that they are not set out in such a way as to unduly prejudice the promoters or vendors' legitimate interests by reducing the earnings below the figure at which they may fairly be stated, or by omitting to adjust extraordinary items of Expense or Revenue. The effect of a change in import or export duties or bounties, the nature and term of contracts in force, the tenure of the property in which the business is carried on, the credit of the concern, the effect of possible competition on what is at present a monopoly or of a cessation of competition resulting from a consolidation, must all be carefully considered and a fair balance held all through between the seller and the purchaser. It will frequently be found necessary also to average certain profits or losses taken up in the books in a specific year over a period of years longer or shorter than those covered by the examination.

It should here be noted that there is a marked difference between a statement of profits prepared for and certified to an Annual Meeting of Stockholders, and one that is prepared for
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the purpose of showing to prospective investors the earning capacity of the business. In the former case the accounts are adopted by the stockholders at each Annual Meeting, reserves of various kinds are made from the profits of good years to be carried forward to bad years, changes in methods of valuations of different classes of assets are made from year to year, and, generally, the accounts are drawn up more with a view of determining the amount which can safely be divided among the stockholders in dividends, than of showing the actual earning capacity of the business. In the latter cases, however, it is essential that the profits certified for each separate year be those actually earned from the operations of that year, any arbitrary additions or deductions due to changes in bases of valuations or otherwise being taken into consideration, and that they be free also from abnormal fluctuations due to unavoidable contingencies which should be provided for proportionately over a period of years.

Careful consideration must also be given to the effect that large adjustments made or omitted to be made would have upon the purchase price paid for the business, where that depends, as is usually the case with Goodwill, upon a certain number of years' purchase of the certified profits. For instance it is usual that the vendor should guarantee collection of the Accounts Receivable and the maximum amount of Liabilities Payable; but such a guarantee is not sufficient when the payment to be made for Goodwill is dependent upon the profits for the reason that an addition to the purchase price of, say, five years’ purchase on a bad debt or omitted liability of $1,000.00 may be cheaply obtained by the vendor repaying the $1,000.00 so represented. Similarly, if there is a change in the basis of Inventory valuations at the beginning and end of a period covered by the certificate of earnings, any such error would, in arriving at the purchase price for the Goodwill, be multiplied if the period upon which the Goodwill is based exceeds that covered by the certificate.

In carrying through a consolidation of a number of businesses into one corporation the following plan has been found by experience to be the most satisfactory, and to give the fairest results to all parties:

There should be a Valuation Committee selected from the different companies, whose duties should be to supervise the tak-
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ing and pricing of the Inventories. The Capital Assets should be appraised by competent engineers or other experts; statements of the Profits or Losses of the different companies should be certified to by a Public Accountant, the same accountant being employed for all companies; and all the book Debts and Liabilities of his company should be guaranteed by each vendor. The whole work, including the immediate taking of the Inventories and the making of the appraisals, should be under the entire direction and supervision of a Public Accountant agreed upon by all parties, who would also supervise the preparation of the Liquidation Accounts for each of the old companies, and thereupon certify the final amount to be paid to each, a proportion of the purchase price being retained from each vendor pending such final liquidation.

The Goodwill should be based upon a certain number of years' purchase, previously agreed upon, of the average profits for the period covered by the investigation, and the allowance of such an amount involves also that in cases where a loss is shown instead of a profit an equivalent deduction, frequently termed "bad-will," should be made.

Such a plan of consolidation as that laid down is the only one which can be carried through without injustice to the parties, who will otherwise haggle as to prices, each endeavoring to obtain the best of the bargain, with the result that there might be friction and bad feeling in the new organization, leading to an inefficient organization, and probably in the end to loss and disaster.

The experience of the Public Accountant, acquired during years of practice, qualify him to a greater extent than any other member of the community for dealing in a broad and scientific manner with all the varied problems involved, requiring the exercise of the same ability, judgment, and integrity, in carrying out such duties as already demanded in the case of audits if he is to do full justice—and no more than justice—to both present and prospective owners.

(To be continued)
Corporation Accounting and Investigations.*

BY F. H. MACPHERSON, F. C. A.

Preliminary to taking up the question which has been placed in my hands, as the basis of the talk for this evening, I think it well that we should give consideration to the principles involved in an examination of the accounts of concerns where amalgamation or consolidation is being discussed.

The nature and extent of the accountant's investigation will depend, of course, largely upon his instructions; but we will assume, for the purpose of this evening's talk, that manufacturing concerns in the same line of business contemplate consolidation; that the report of the accountant upon each of the plants is to form the basis of the consolidation, and that the accountant's instructions are general and not specific; and that they include the determining of the assets and liabilities as well as the earnings.

Accountants differ as to the scope of an investigation. There are those who take the position that the accountant is not expected to make the thorough examination that a regular audit would entail, but that the genuineness of the books and of the balance sheet should be assumed. Most accountants, however, believe that the investigating accountant should analyze the accounts thoroughly, in the doing of which fraud, if any, would be discovered.

Regular audits and special investigations have, or ought to have, the same end in view; the obtaining of a correct statement of facts.

I can not well see how an accountant can accept and prepare a report from any balance sheet without satisfying himself by a sufficient analysis of the regularity of the accounts and of the methods followed by which the various items which enter into the assets of a concern, or which go to make up the revenue and expenditure accounts, are produced.

Statements covering each of the concerns examined should be included in the report of the accountants independent of each other, and based upon the specifications which have been set out, should contain information as follows:

(1) Assets as of a given date (the same in each instance) divided as to:
   (a) Realty.
   (b) Plant and Machinery.

* Delivered before the class in accounting of Detroit Business University.
(c) Merchandise (raw material).
(d) Merchandise (in process).
(e) Merchandise (finished product).
(f) Leasehold.
(g) Goodwill.
(h) Patents.
(i) Accounts Receivable.
(j) Bills Receivable.
(k) Cash on hand and in bank.
(l) Bills Receivable under discount (indirect).
(m) Accrued interest, insurance, etc.
(n) And such other divisions of the assets as the nature of the business may demand.

(2) Liabilities, as of a given date (the same in each instance), divided as to:
(a) Bills Payable.
(b) Accounts Payable.
(c) Mortgage indebtedness.
(d) Bills receivable under discount (indirect).
(e) Other indirect liabilities.
(f) Capital account.
(g) And such other division of the liabilities as the nature of the business may demand.

(3) Revenues and Expenses of each business showing earning power of each in a given time (usually three years if the business has been in operation so long) and preferably covering the same period.

Taking the items in these divisions in their order, the accountant will ordinarily not be called upon to verify items "a" to "h," the land, buildings, stock-in-trade, leasehold, etc., being specially valued by independent valuers. If not, and these are subject to verification by the auditor, he should in the case of:
(a) Realty. Call for the title deeds and see that the account is not charged with fictitious increases in value, or with the annual taxes, as I have found in certain instances.
(b) And that a sufficient allowance has been made for depreciation (in building, etc.)
(c), (d), (e), Merchandise, raw, in process, and the finished product. Get certified inventories, which should be checked both as to extensions and additions; an independent appraisement is altogether preferable. Compare inventory with invoices in the case of raw material. To see that profits are not anticipated, a careful inspection of cost accounts is required. In case of manufactured stock care must be exercised to see that office and selling expenses are no pro-rated and added to the costs of goods appearing in the inventory. Note should be taken of the "dead wood" in the stock and that proper allowance has been made to cover.
Leasehold is not usually a consideration, but if found to exist, a
special valuation to ascertain present value is best; otherwise, the
original cost, less proportionate reduction for the expired period
should be taken.

Goodwill. This item can only be determined by agreement be-
tween the parties, and is one which does not seriously concern the
accountant, except that if it is put in at an arbitrary sum by the
vendors, he should see to it that the price be set forth separately
and distinctly in the “assets” so that the purchasers may know
just how much they are expected to pay.

Patents. See that these are entered at their proper present worth
—which will be determined by the remaining life thereof, and the
present “state of the art” in that particular connection.

Accounts receivable. A careful examination should be made to
ascertain the condition of these, that they are alive and collectible,
and that proper provision has been made for bad and doubt-
ful; also that secreted in the accounts receivable may not be found
charges for “goods on consignment” billed out at the usual profit
and going to swell the volume of output, thus unduly increasing
the earnings by the “anticipation of profits.”

Bills receivable. Same examination as in the case of accounts, so
far as prospects of realization are concerned.

Cash on hand and in bank. The same verification as in a regular
audit.

Bills receivable under discount. This is an indirect asset as well
as an indirect liability, and it is important in the case of an
amalgamation, where the liabilities are being assumed, that in-
formation on this point should be given. It may be necessary that
some allowance should be made in anticipation of “loss upon
realization.”

Accrued interest, insurance, etc. That the claim for these is fair
and proper.

Turning next to the question of liabilities, we take up:

(a), (b), Bills payable and accounts payable. The verification will be
the same as in a regular audit. In this connection it may be proper
to say that there is not much danger of the liabilities being over-
stated. The principal danger lies in the understating or not taking
to account of the outstanding liabilities, and this must be carefully
guarded against if the transfer of the business involves the assum-
ing of all the liabilities.

(c) Mortgage indebtedness. Verification by the obtaining of a state-
ment from the mortgagees, both as to principal and arrears or ac-
crued interest.

(d) Bills receivable under discount. The remarks under item “1” in
assets would properly apply here, being applicable in both cases.
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(e) Other indirect liabilities. These may be in the nature of endorse-
ments (although a strictly improper and illegal proceeding in the 
case of joint stock companies) claims for damages, disputed ac-
counts for materials, services or commissions. A distinct state-
ment in writing as to the existence or non-existence of these 
should be obtained from the proper officers of the company.

(f) The value of the business to the purchasers will be represented 
by the difference between the assets and liabilities in each 
case and if profitable should equal the issue of capital stock 
with an addition to the assets of any undivided profits, which 
would enhance the value of the equity to be transferred to the 
amalgamation.

The question of revenue and expenses of operation will in all 
probability more particularly occupy the attention of the account-
ant, rather than the ascertaining of the value of the assets and 
liabilities; in fact, as I have stated before, his instructions may 
limit him to the determining of these without regard to the other. 
Taking the revenue accounts first: the accountant will require to 
make a careful investigation of the receipts for the period 
(usually three years) under examination. He will see that no 
extraneous revenue has been introduced and that the progress 
in the revenue account has been consistent and steady, or other-
wise. He must be watchful that the revenue account has not 
been increased by credits for goods "on consignment" with an 
off-setting entry to accounts receivable.

Other points which require to be looked into are: that goods 
"on approval" likely to be returned to stock afterwards have 
not found their way in the sales account; that fictitious sales, for 
the purpose of swelling the revenue have not been put through 
the books, and shipments not made before close of inventory; that 
incompleted and unshipped orders have not been credited to sales 
account, thus inflating revenue by ungained profits; that rebates 
and allowances are a charge against sales and not an addition to 
merchandise account. In a word, the bona fides of all sales 
especially near the end of the period should be determined 
to the satisfaction of the accountant.

It is the duty of the accountant to see that all the expenses 
entered are a proper charge against the business and that they are 
made within the proper period; that there is no reduction in ex-
penses towards the close of the term under inspection; that the 
expenses are regular and consistent and bear a steady ratio to
Corporation Accounting and Investigations.

the turnover; that proper and reasonable allowances have been made for repairs and renewals, and that these are charged against revenue and not as an increase of capital.

Excessive profits from any particular cause should be noted, as, for instance, those which might arise from the making of heavy purchases in anticipation of an upward tendency in prices, and which anticipation had been fulfilled. He should be satisfied that all profits earned and taken to account are incidental to the business. A sale of real estate not required for the purposes of the business, and made at a substantial profit, forms an example. On the other hand expenditures of exceptional and unusual character which have gone to reduce the profits below normal should be noted.

In the consideration of the cost of operation heed should be given to the effect which a limited capital has had upon the expenses of operation. Lack of capital is naturally followed by increased borrowings, and increased borrowings augment the interest account. Operation is thus charged with a sum, which, had adequate capital been invested, would have been in the nature of a dividend. By way of illustration, I have in mind a business in which every dollar of capital invested was borrowed. This may appear an extreme case, but such is, nevertheless, sometimes to be found. The borrowed capital represented $100,000. Upon this sum interest was paid out of the business and charged to operating expenses. I am asked to investigate and find this condition. In the preparation of the profit and loss account I eliminate the $6,000, interest paid on this sum in order to arrive at the earning power of the business. It can readily be seen how unfair any other course would have been, and how lack of sufficient capital in any business will impair the earning power and affect the showing as to profits, unless allowance be made therefor. There is no room here for the exercise of a display of good judgment on the part of the auditor in determining what the "adequate capital" should be.

Reports in detail upon each business should be prepared and furnished the principals, and these should form the basis upon which the amalgamation is carried out. Regard, of course, will also be had to the introduction of other interests where more ex-
tensive operations are contemplated by the amalgamating company.

In addition to the report in detail a certificate is usually prepared for use in the prospectus. This certificate is generally barren of all information except as to the revenues, expenses of operation, and profit-earning power of the various businesses entering the amalgamation, and these in the aggregate. Indeed, certificates are not uncommon where information is given only as to the profits earned by the several businesses. It is unusual to see any reference to the amount of capital invested. It occurs to me that a model certificate would be one framed somewhat after the following style:

CERTIFICATION.

Gentlemen—I beg to advise that I have examined the records of The Brown Manufacturing Company, Limited, and of The Jones Manufacturing Company, Limited, each for a period of three years, and certify to the correctness of the underwritten statements, as to Capital, Earnings, Expenses of Operation, and Net Earnings, covering the period given:

**Brown Manufacturing Co. Limited.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Capital Employed</th>
<th>Earnings</th>
<th>Expenses of Operation</th>
<th>Net Earnings</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$...........</td>
<td>$........</td>
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<td>Total</td>
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**Jones Manufacturing Co. Limited.**

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<tr>
<th>Year</th>
<th>Net Capital Employed</th>
<th>Earnings</th>
<th>Expenses of Operation</th>
<th>Net Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1898</td>
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</table>

**Combined Companies.**

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<th>Earnings</th>
<th>Expenses of Operation</th>
<th>Net Earnings</th>
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<td>Total</td>
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For further information reference is made to my reports in detail herewith.

**John Thompson,**

Accountant.
Corporation Accounting and Investigations.

I fully appreciate that the less detail there is in the report the better, for the obvious reason that much of it would not be understood by the average individual, and the tendency would be to befog rather than enlighten, and that is very undesirable. But I do think that an accountant issuing a certificate framed as above, with a simple qualifying reference to a report for further and detailed information will be placing himself upon safe and sure ground.

Illustrative of the fact that the ground which I have covered up to this point includes practically all that is necessary in connection with the examination of the accounts for the purposes mentioned, I now present for your benefit a memorandum of agreement, which was the basis of a recent consolidation with which we had to do.

Basis of Consolidation:

A corporation to be formed under the laws of the State of Michigan, with a paid up capital of ten million dollars, to be apportioned into six per cent. preferred stock and common stock, as the parties interested may hereafter determine.

This corporation to purchase all the assets, property, goodwill, etc., of all the four companies and to pay therefor in preferred and common stock and by an assumption of the indebtedness of each company.

The amount of preferred and common stock, to be paid to each company, to be determined by the value of the net tangible assets and the valuation placed upon the earning power of each company.

In placing a value upon the tangible assets, same to be reached as follows:

(1) The land, buildings, machinery, tools, and patterns, to be determined by appraisers, to be chosen by a majority of a committee made up of one appointed by each of the companies; on failure of this committee to agree on appraisers the selection to be left to the committee who present these suggestions.

(2) Inventories of raw materials, work in progress and manufactured stock to be taken, and valuations placed thereon by the individual companies, and this to be done under the supervision of a disinterested party, to be named by the committee.

The inventories are to be made as of the same date, and to be taken at substantially the same time.

When completed the inventories are to be passed and agreed upon by a committee consisting of a representative of each of the companies and one to be named by the committee. The decision of these five to be binding.

(3) In reaching the value of the earning power of the several companies, consideration is to be given to the following details:
The Journal of Accountancy.

(a) That profits are incidental to the business and have not been anticipated.

(b) To the charging to operating expenses of items, exceptional or unusual, and which have had the effect of reducing profits below normal.

(c) The effect upon the earnings of the money paid out as interest upon borrowed capital, in case it be found that the borrowings (loans) made by the several companies are disproportionate to each other.

(d) That all charges to operating expenses are proper charges against the business and that they are made for and during the proper period.

(e) That proper and reasonable allowances have been made for repairs and renewals and that these have been charged against earnings.

(f) That charges against earnings for depreciation are adjusted upon an equitable basis.

(g) Such other matters as appear from an examination of the accounts and which would prejudicially affect the earnings of any of the companies, either advantageously or disadvantageously.

(h) The value of the earning power to be determined by a consideration of the business done by each of the several companies for the three years, 1903, 1904, and 1905.

(i) Accountants to be selected by the committee and questions which may arise as to treatment of various matters and about which there is difference of opinion, to be determined by the committee.

(j) All costs and expenses incurred in making appraisals, examination of accounts, or of performing the other duties in connection with the formation of the proposed new company to be charged to and borne by the new company; should the new company not be formed, then such costs, expenses, and disbursements to be borne by the four individual companies in proportion to the number of men employed by each.

We will now take up the question which I have been asked to work out for the benefit of the class.

This question evidently originated in the State of Pennsylvania, as I should assume, from the fact that reference is made to the payment by the corporation, of taxes, etc., due the State of Pennsylvania on the formation of the corporation. To make this question of more local value, have included instead the franchise fees required under the laws of the State of Michigan, which are paid to the Secretary of the State of Michigan upon
Corporation Accounting and Investigations.

the basis of one-half of one mill upon each dollar of the authorized capital stock. Following is the question:

Practical Accounting.

I. The following statement of affairs which was taken as being correct, was made to proposed underwriters for the consolidation of four corporations, under a corporation to be formed to take over all the four corporations.

It was understood and agreed that the stock of corporation No. 1, par value of which $100.00 should be purchased at $135.00 per share.

Corporation No. 2, Stock par $100.00 at $120.00 per share.
Corporation No. 3 " " 50.00 at 50.00 per share.
Corporation No. 4 " " 25.00 at 41.00 per share.

It was also agreed by the Underwriters that they would advance sufficient money to purchase said stock, the whole of the stock of the proposed corporation to be turned over to them, together with $200,000.00 of the bonds of the new company.

That sufficient bonds is issued to retire the bonds of the old corporations and provide for $500,000.00 of treasury bonds to be used in betterments.

In addition to the above it was agreed that the underwriters would purchase at least $250,000.00 of the new bonds at 85%.

It was agreed also that the par value of the stock of the new corporation should be $100.00 per share, and that sufficient stock should be issued to cover 20% more than the cash outlay of the underwriters for the purchase of the stock of the old corporations.

It was also agreed that the new corporation should take over the assets of the old corporations, but that each of the old corporations should be clear of indebtedness except for bonds issued.

The assets turned over to the new corporation were to be as follows:

Corporation No. 1.

Cash................................. $48,000.00
Plant.................................. 450,000.00
Supplies............................... 90,000.00
Book % Receivable.................. 184,000.00 $772,000.00

Bonds................................ 350,000.00
Capital Stock.......................... 350,000.00 $700,000.00

Corporation No. 2.

Cash................................. $70,000.00
Plant.................................. 820,000.00
Supplies............................... 80,000.00
Book % Receivable.................. 270,000.00 $1,240,000.00

Capital Stock.......................... 850,000.00
Bonds................................ 390,000.00 $1,240,000.00
The Journal of Accountancy.

Corporation No. 3.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$28,000.00</td>
</tr>
<tr>
<td>Plant</td>
<td>420,000.00</td>
</tr>
<tr>
<td>Supplies</td>
<td>43,000.00</td>
</tr>
<tr>
<td>Book % Receivable</td>
<td>135,000.00</td>
</tr>
<tr>
<td>Bonds</td>
<td>280,000.00</td>
</tr>
<tr>
<td>Capital Stock</td>
<td>350,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>625,000.00</strong></td>
</tr>
</tbody>
</table>

Corporation No. 4.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$110,000.00</td>
</tr>
<tr>
<td>Plant</td>
<td>1,475,000.00</td>
</tr>
<tr>
<td>Supplies</td>
<td>86,000.00</td>
</tr>
<tr>
<td>Book % Receivable</td>
<td>433,000.00</td>
</tr>
<tr>
<td>Capital Stock</td>
<td>150,000.00</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,890,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,103,000.00</strong></td>
</tr>
</tbody>
</table>

Form the new corporation with sufficient stock and bonds, the bonds to draw 5% interest to meet the requirements of this agreement, charging into plant a/c all taxes and bonds due the State of Pennsylvania, on formation of corporation, together with a counsel fee of $20,000, as well as other compensation under this agreement, and give a statement showing the result.

At the end of the year it is found that $250,000 of the bonds of the corporation have been sold to the underwriters and used for betterments.

The results of the business for the first year show a profit of $1,000,000, after charging off 10% for depreciation on plant.

Declare such a dividend as in your judgment is reasonable, crediting surplus with whatever balance remains, and give a statement of condition, using your own figures in ascertaining the profit.

SOLUTION:

<table>
<thead>
<tr>
<th>Capital Stock</th>
<th>No. 1</th>
<th>No. 2</th>
<th>No. 3</th>
<th>No. 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$472,500.00</td>
<td>$1,020,000.00</td>
<td>$350,000.00</td>
<td>$246,000.00</td>
</tr>
</tbody>
</table>

Cash value of Stock: $2,688,500.00
Add 20%: 417,700.00

Stock of New Corporation: $3,106,200.00
Corporation Accounting and Investigations.

Bonds:
- No. 1........ $350,000.00
- No. 2........ 390,000.00
- No. 3........ 280,000.00
- No. 4........ 1,890,000.00

Total Bonds: $2,910,000.00

Treasury Bonds: 500,000.00

To Underwriters: 200,000.00

Total: $3,610,000.00

<table>
<thead>
<tr>
<th>Assets</th>
<th>Cash</th>
<th>Plant</th>
<th>Supplies</th>
<th>%S. Rec.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$48,000.00</td>
<td>$450,000.00</td>
<td>$90,000.00</td>
<td>$184,000.00</td>
</tr>
<tr>
<td></td>
<td>70,000.00</td>
<td>820,000.00</td>
<td>80,000.00</td>
<td>270,000.00</td>
</tr>
<tr>
<td></td>
<td>28,000.00</td>
<td>420,000.00</td>
<td>42,000.00</td>
<td>135,000.00</td>
</tr>
<tr>
<td></td>
<td>110,000.00</td>
<td>1,475,000.00</td>
<td>80,000.00</td>
<td>432,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$256,000.00</td>
<td>$3,165,000.00</td>
<td>$298,000.00</td>
<td>$1,021,000.00</td>
</tr>
</tbody>
</table>

Counsel Fee.
Compensation to Underwriters: 20,000.00
Compensation to Shareholders: 617,700.00
Franchise Fee, Mich.: 258,500.00

Total: $256,000.00 $4,062,453.10 $298,000.00 $1,021,000.00

ASSETS AND LIABILITIES OF NEW CORPORATION AT COMMENCEMENT.

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash....................</td>
<td>$256,000.00</td>
</tr>
<tr>
<td>Less Counsel Fee........</td>
<td>$20,000.00</td>
</tr>
<tr>
<td>Less Incorporation Fees</td>
<td>1,253.10</td>
</tr>
<tr>
<td>Plant........................</td>
<td>4,062,453.10</td>
</tr>
<tr>
<td>Supplies..................</td>
<td>298,000.00</td>
</tr>
<tr>
<td>Accounts Receivable.....</td>
<td>1,021,000.00</td>
</tr>
<tr>
<td>Bonds in Treasury........</td>
<td>500,000.00</td>
</tr>
<tr>
<td></td>
<td>$6,116,200.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Stock............</td>
<td>$2,506,200.00</td>
</tr>
<tr>
<td>Bonded Indebtedness.....</td>
<td>3,610,000.00</td>
</tr>
<tr>
<td></td>
<td>$6,116,200.00</td>
</tr>
</tbody>
</table>
# ASSETS AND LIABILITIES OF NEW CORPORATION AT END OF YEAR

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>$327,500.00</td>
<td>$132,300.00</td>
</tr>
<tr>
<td>Accounts and Notes Receivable</td>
<td>Dividend No. 1 on Common Stock, 10%</td>
</tr>
<tr>
<td>2,074,292.21 $2,401,792.21</td>
<td>250,620.00 $382,920.00</td>
</tr>
<tr>
<td>Inventories</td>
<td>Bonded Indebtedness</td>
</tr>
<tr>
<td>4,062,453.10</td>
<td>3,610,000.00</td>
</tr>
<tr>
<td>Plant Account</td>
<td>Capital Stock</td>
</tr>
<tr>
<td>250,000.00</td>
<td>2,506,200.00</td>
</tr>
<tr>
<td>$4,312,453.10 $406,245.31</td>
<td>Surplus:</td>
</tr>
<tr>
<td>Less 10% for Depreciation</td>
<td>Profit &amp; Loss for year</td>
</tr>
<tr>
<td>3,906,207.79</td>
<td>1,000,000.00</td>
</tr>
<tr>
<td>Bonds in Treasury</td>
<td>Less 5% Interest paid on Bonded Indebtedness</td>
</tr>
<tr>
<td>250,000.00</td>
<td>$180,500.00</td>
</tr>
<tr>
<td></td>
<td>Less Dividend</td>
</tr>
<tr>
<td></td>
<td>No. 1 $250,620.00 $431,120.00 $568,880.00</td>
</tr>
</tbody>
</table>

$7,068,000.00

$7,068,000.00
MANUFACTURING, TRADING, AND PROFIT, AND LOSS ACCOUNT.

<table>
<thead>
<tr>
<th></th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory at commence-</td>
<td>$298,000.00</td>
<td></td>
</tr>
<tr>
<td>ment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>2,240,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,538,000.00</td>
<td></td>
</tr>
<tr>
<td>Inventory at end of year</td>
<td>510,000.00  $2,028,000.00</td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>2,750,000.00</td>
<td></td>
</tr>
<tr>
<td>Freight and Express</td>
<td>16,500.00</td>
<td></td>
</tr>
<tr>
<td>Power, Heat, and Water</td>
<td>63,000.00</td>
<td></td>
</tr>
<tr>
<td>Repairs and Renewals</td>
<td>14,160.00</td>
<td></td>
</tr>
<tr>
<td>Factory Expense</td>
<td>46,000.00</td>
<td></td>
</tr>
<tr>
<td>Office Salaries</td>
<td>82,000.00</td>
<td></td>
</tr>
<tr>
<td>Executive Salaries</td>
<td>49,760.00</td>
<td></td>
</tr>
<tr>
<td>Office Expense</td>
<td>98,760.00</td>
<td></td>
</tr>
<tr>
<td>General Expense</td>
<td>2,250.00</td>
<td></td>
</tr>
<tr>
<td>Taxes, Insurance</td>
<td>7,825.00</td>
<td></td>
</tr>
<tr>
<td>Discounts allowed</td>
<td>8,740.00</td>
<td>217,000.00</td>
</tr>
<tr>
<td>Advertising</td>
<td>52,000.00</td>
<td></td>
</tr>
<tr>
<td>Travelers' Salaries</td>
<td>106,000.00</td>
<td></td>
</tr>
<tr>
<td>Travelers' Expense</td>
<td>62,000.00</td>
<td></td>
</tr>
<tr>
<td>Special Discounts</td>
<td>7,250.00</td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td>1,400.00</td>
<td></td>
</tr>
<tr>
<td>Accounts written off</td>
<td>7,340.00</td>
<td>229,465.00</td>
</tr>
<tr>
<td>Depreciation of Plant 10%</td>
<td>406,245.31</td>
<td></td>
</tr>
<tr>
<td>Balance, (net profit)</td>
<td>$6,770,370.31</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$6,770,370.31</td>
</tr>
<tr>
<td>Balance carried to Surplus</td>
<td>$1,000,000.00</td>
<td></td>
</tr>
</tbody>
</table>
The Accounting of Industrial Enterprises.*

By William M. Lybrand, C.P.A.

While it may be true that many of the industrial enterprises now in existence remain as partnerships or as independent corporations, a very large number of undertakings of that character have been consolidated into that form of organization represented by the holding companies. It is with accounts of the latter class of industrial enterprises, therefore, that this paper will deal principally, because accounting principles, if sound, do not change with their application to any particular form of accounts, while accounting methods, if good, when modified to conform to the requirements of the different kinds of business operations, are applicable to small as well as to large undertakings.

Pools.

In the revival of industry which succeeded the industrial depression of 1873, the corporate form of organization began to be used more and more. The holding company had not then made its appearance and the great combinations of the present day did not then exist. In the meantime, the corporations, not having consolidated, and therefore being competitors, were led to adopt various devices designed to eliminate the evils of competition from which they suffered. The formation of pools was one of the commonest and most popular methods employed. The pools were associations of manufacturers who agreed to place the marketing of their product under some central association, hoping thereby to secure the benefits of stable prices and a regulated output. The inherent weakness of the pools was that their provisions were not enforceable at common law, and good faith on the part of the members could be compelled only by the forfeiture of deposits, the imposition of fines and expedients of a similar character. Mutual distrust was apt to exist, withdrawal of members was possible, and in times of depression, when business at profitable prices was hard to obtain,

*Presented at the Annual Meeting of the American Association of Public Accountants, Atlantic City, New Jersey, October 22-30, 1908.
The Accounting of Industrial Enterprises.

and when the pool was most needed, it was usually most difficult to control the members or to keep them together.

Trusts.

The failure of the pools to accomplish the object for which they were organized, led to the creation of a form of organization which was intended to have a legal foundation and a permanent existence, namely, the Trust. Under the trust form, the capital stocks of the constituent companies were assigned to a board of trustees, who issued trust certificates in lieu of the shares so assigned. The trustees, having been vested with the control of the corporations through the assignment of their capital stocks, became responsible for the management of the several companies and were thus in a position to adopt a settled policy in all matters pertaining to the limitation of output and the upholding of prices. The trust, as an expedient for lessening or obviating the evil of competition, and for securing the benefits of consolidation, was by reason of its authority, stability and permanent organization a decided advance over the temporary and ineffective pool. Its legal position was, however, found to be open to attack, and adverse judicial decisions in cases brought to test whether or not it was a combination in restraint of trade finally drove the trust out of existence as a legal means of effecting combinations.

Holding Companies.

About the time that the test cases to prove whether or not the trust was to be allowed to exist were in progress, a new legal expedient for accomplishing combination was provided through the enactment by the State of New Jersey of a revised General Corporation Act, under which the right was granted to one corporation to purchase and hold stocks of another, a right which prior to that time seems to have been held by the corporations only by virtue of their being organized under special laws. It has been said that, "for momentous consequences, this statute of New Jersey is hardly equaled in the annals of legislation; corporate organization could henceforth be promoted, not to serve
The Journal of Accountancy.

the ends of industrial management, but solely in order that financial combinations might indirectly control operating companies through ownership of their capital stock." Thus the holding company originated, and under this law one consolidation followed another, until at the present time there exist the gigantic industrial combinations which virtually control the several lines of industry in which they are engaged.

Advantages of Combination.

The principal factor leading to the formation of the industrial combinations was doubtless the desire to eliminate ruinous competition by obtaining so large a control over any one class of merchandise that it was possible virtually to regulate the price at which it could be sold. Contrary to the accepted idea, the control of prices does not necessarily mean their exorbitant advancement, but under enlightened management, exemplified, we believe, in one of our largest combinations, it enforces a policy of stability in prices, under which business in times of depression suffers vastly less than if indiscriminate price cutting were in effect. However, other causes than the control of prices were instrumental in hastening the formation of combinations. In a territory as extensive as the United States, the transportation of raw materials to the seat of manufacture, and the finished product thence to the place of its disposal, constitutes a large element of cost. Under a combination, the orders may be so distributed that the mills most advantageously situated as respects transportation facilities can be worked to their full capacity, while others less favorably located may, except in times of unusual activity, be closed temporarily. Orders for certain classes of merchandise may be concentrated in one plant so that it may run continuously with few changes of appliances, and thus turn out the largest output at a minimum of cost. Sources of raw materials may be controlled through the large financial resources of the combination, or by the amalgamation with it of the companies controlling such raw materials. Labor may be dealt with in larger groups and more advantageously; expenses of distribution of goods may be curtailed by dispensing with salesmen who traverse each other's territory; duplicate offices
The Accounting of Industrial Enterprises.

may be eliminated; stocks of merchandise may be reduced; management and office expenses may be decreased by concentration—these are some of the other advantages which it was believed would accrue to the properly constituted combinations, and which have in many instances, doubtless, been realized to a considerable extent.

Evils of Monopoly.

Without devoting undue space to a discussion of the ethical features of trusts or combinations, it may not be inappropriate to consider for a moment the evils which in the public mind seem to be indissolubly associated with them. First of all is the dread of monopoly. To what extent this fear is justifiable it is difficult to determine. Even where a combination has a virtual monopoly, there is a practical limit beyond which it can not advance its prices. If this limit is exceeded, demand for the article ceases, substitutes therefore are devised, or the pressure of public opinion becomes so great that the most strongly entrenched monopoly must be affected by it. On the other hand a monopoly is probably effective in influencing prices in that they can be maintained at substantially the same level, in the face of reduced costs of production due to the introduction of improved manufacturing processes, thus depriving the consumer of the benefit of at least a part of the widening margin between cost and selling price which would probably accrue to him under the regime of competition. It will be argued by others, however, that the greater profit results entirely from the economies of combination, and that therefore the additional margin equitably belongs to the producer, as the consumer, under competition, would have been no better off than is now the case.

At a meeting for the discussion of economic questions, a prominent socialist recently described the material advantages which, he argued, would accrue to the workingmen, if the productive agencies of the industrial world were placed under their control and operated for their benefit. A well-known political economist in reply expressed his belief that if these agencies were so controlled and operated, the net results under the relatively unskillful management that would then ensue would
be so much less than under the present conditions, that each workingman would receive no more than he does at the present time. The same thought may be true as to prices; if under competition there is economic waste, and in combination there is economy, would not the increase in costs under the former necessitate prices equal to those under a monopolistic regime? These questions of costs, prices, and monopoly are, of course, too far-reaching to be properly discussed within the limits of a paragraph, but they are now the source of so much public debate, with the possibility of an attempted public control, that they demand our thoughtful consideration.

The temptations of fraudulent promotion and speculative management are other evils ascribed to the combinations. It is claimed that earnings which were used as a basis of capitalization have been overstated, either intentionally or ignorantly, by the failure to include among the expenses of operating the full cost of maintaining the property, or a proper provision for renewal of the plant through whose operation the earnings were produced, but which must obviously deteriorate in value because of that use, or become obsolete through the introduction of improved appliances. The more serious charge has been made and proved to the satisfaction of many, that constituent companies acquired at one price by the members of a syndicate have been sold directly or indirectly to themselves as directors of the holding company at greatly enhanced amounts. Speculative management, with one eye on the ticker, and the other on the profit and loss statement, has been alleged, with the attendant evils of a property "skinned" to show large earnings, or the payment of dividends unearned, or at least unwarranted from the standpoint of financial expediency.

It is alleged that the holding company adds to the complexity of corporate organization, admits of the accumulation of debts in the affiliated companies, the piling up of deficits in some companies without provision therefor in the accounts of the parent company, and by other devices tends to obscure the real profits or losses, thus leaving the stockholder utterly in the dark as to the actual value of his holdings.

Numerous remedies have been proposed to prevent some of the foregoing evils. The trend of public opinion at present seems
The Accounting of Industrial Enterprises.

It was stated at the beginning of this paper that accounting principles, if sound, are applicable to any particular form of accounts; therefore, with a subject as comprehensive as the one now under consideration, it does not seem feasible to do more than discuss those accounting principles which should control in the inauguration, administration and presentation of the accounts of industrial enterprises, without attempting to deal with details or to describe the particular form which the accounts should assume.

The accounts of a corporation may be called the history of its financial transactions, or, as the writer’s perceptor was accustomed to remind him constantly, they should be “records of the facts.” A fact would seem to be capable of but one interpretation, and we should therefore, if not otherwise informed, be led to expect that a statement prepared from the books would be an exact reflection of the facts of its financial transactions. But in practice no such simple or ideal condition will be found to exist. The modern business organization is so complex, and its transactions so numerous and so varied, that the facts are sometimes difficult to ascertain, and frequently are of such a character that they fall under the category of opinions rather than certainties. Further, the operations of a business are intended to be continuous, and at no time is it contemplated that there will be a final cleaning up in which every asset will be realized on and every liability disposed of; therefore, while the fact as to the current transaction may be known, the amount to be ultimately realized may be uncertain, and the best that can be done with the accounts
is to organize them intelligently and administer them on sound accounting principles, so that when a statement is prepared it will reflect an honest opinion as to the company's financial position and the results of its operations.

**Balance Sheet of Holding Company.**

The principal accounts of a corporation, or, at least, those which are perhaps of the greatest interest to the management, are the balance sheet and the income and profit and loss statement.

The balance sheet of a holding company is not necessarily a particularly complicated statement. If the holding or parent corporation is a finance company simply, as distinguished from an operating company, its chief assets will usually consist of the securities of the subsidiary companies of which it is the owner. Quite frequently the entire capital stocks of these subsidiary companies will have been acquired by the parent company, and the latter may also be in possession of some of the bonds which lie against the property of the subsidiary companies.

Frequently, other large items of assets are advances made to the subsidiary companies for which the latter may have issued their notes in favor of the parent company. Such advances are usually made to provide for extensions or additions to the plants of the subsidiary companies after they have been acquired by the holding company, or they may have been made for the purpose of furnishing additional funds to purchase larger stocks of materials, to carry contracts requiring considerable time to complete, or for any other legitimate business purpose. If the moneys advanced have been for the purpose of adding to the plants of the subsidiary companies, it may be that these loans will subsequently be funded by the subsidiary companies through the medium of mortgage bonds, which if sold to the public will enable the subsidiary companies to discharge their debts to the parent company. Or possibly, if the whole of the authorized stock of the subsidiary company is not outstanding, a further amount may be issued and delivered to the parent company in settlement of the advances, thus changing the form of the asset on the holding company's books from an account receivable to a security...
**The Accounting of Industrial Enterprises.**

ownership. It is improbable that such a course would be pursued except in very special instances, as the holding company would doubtless prefer to appear as a creditor of the subsidiary company, rather than as an owner of more shares of its capital stock, because, if the subsidiary company were unprofitable and it became necessary to wind it up, the holding company would claim, with the other creditors, its proportion of the realizations from the subsidiary company's assets. Such a position, we believe, would be assumed by the holding company in the absence of direct ruling to the contrary, but serious doubt has been cast recently on the ability of a holding company to sustain such a contention, where it is the owner of the entire capital stock issue of the underlying company.

Advances made by a parent company to its subsidiary companies are not always represented in the latter by tangible property. Such advances may have been made to recoup the subsidiary company for losses sustained by it in operating. The advances appearing on the books of the parent company would, under such conditions, be nominal assets only, and as such, in a balance sheet of the holding company they should be offset by a reserve sufficient to provide for the whole or such part of them as may be represented by losses.

It is probable that among the assets of the holding company there will be included capital stocks of companies, a minority interest in which may be all that is owned by the holding company, or at most it may be a majority holding and not a complete ownership. Unless there has been a marked depreciation in the value of such holdings, they would be included in the balance sheet at their respective costs, but if it is apparent that they have suffered a radical and permanent decline, they should be written down to an amount which will represent their actual worth.

The liabilities usually call for no particular comment, as, if they are clearly stated, they will be self-explanatory. The capital stocks and bonds issued by the company will generally appear as major items, followed by loans payable and accounts payable due by the company. It is possible that some of the subsidiary companies may, through funding operations have acquired a temporary surplus of cash, which they have deposited with the parent
company, and which consequently will appear as liabilities of the latter. The other liabilities will include the reserve and sinking fund accounts and miscellaneous items.

Consolidated Balance Sheet.

The foregoing remarks are intended to apply to the balance sheet of the holding company per se. It is now very generally recognized, however, that the submission of the balance sheet of the holding company only, does not furnish the owners of the company with the information as to its real financial position to which they may justly consider themselves entitled.

The holding company was, as heretofore stated, organized for the purpose of acquiring the capital stocks of affiliated companies, and thus effecting a combination which would bear the test of adverse legal scrutiny. While each company, under this scheme retains its corporate identity, and is in the eyes of the law a separate corporation, yet there is a virtual consolidation of ownership, the results of which can be properly expressed in a statement of their accounts only by consolidating the balance sheets of all the companies into one balance sheet, eliminating therefrom the inter-company stocks, bonds and accounts, which indicate the relation of one company to another, and not to the public.

A consolidated balance sheet therefore is intended to reflect the financial position of the whole group of affiliated companies, considered as one undertaking. In a typical balance sheet of this character, the following grouping and arrangement of the assets and liabilities has been adopted.

Assets:

- Property Account
- Deferred Charges to Operation
- Investments
- Sinking and Reserve Fund Assets
- Current Assets

Liabilities:

- Capital Stock of Holding Corporation
- Capital Stocks of Subsidiary Companies not owned by Holding Corporation
- Bonded Indebtedness
- Current Liabilities
- Sinking and Reserve Funds
- Surplus

(To be continued)
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EDITORIAL.

The Atlantic City Meeting.

The annual meeting of the American Association at Atlantic City will be notable in the annals of the profession for several reasons. It differed from previous meetings of the association in the international character of its attendance. There were present some forty delegates of foreign societies, some of them leading officers of the greatest bodies of accountants in the world. Representatives of Canadian societies have attended other meetings, but this was the first meeting where there were many visitors whose journey had taken them over salt water. The members of the association greatly appreciated the interest shown by their guests, and the hope was generally expressed that the accountants of all countries would get together frequently for the cultivation of good will and for the discussions of matters of importance and interest to all. There are many reasons why the members of this young profession, the status of which is not yet clearly defined in any country, should hold frequent
meetings and discussions in order that advancement may be uniform so far as possible in all countries. It is for this reason that the American Association is to be congratulated upon having secured such a large and distinguished representation at Atlantic City, and on having shown the foreigners by the interesting and dignified nature of the program that the accounting profession in the United States takes a keen and scientific interest in the business problems which engage its attention.

The meeting will also be remembered as the occasion for the organization of the National Society of Boards of Examiners. This organization was perfected outside the meetings of the association and has no official connection with it, yet all its members are members of the association, and by their organization are carrying out a policy and aiming at a purpose in which the association is deeply interested.

The Atlantic City meeting, like that at St. Paul last year, furnished abundant evidence that the accountants of the United States are united in their resolve to ignore differences of opinion and to pull harmoniously together for the good of the profession.

The New York C. P. A. Examinations.

Mr. James G. Cannon's address to the American Association at Atlantic City on "The Relation of the Banker to the Public Accountant" contains some critical observations which deserve serious and impartial consideration. Mr. Cannon has proved himself in many ways a friend of the profession. Among bank presidents he is conspicuous as a man who has said most and done most to make the independent public accountant a necessary and important ally of the banker. That to such a man the accounting profession appears not to be grasping its full opportunity, not growing as it might grow, and not equipping itself to meet satisfactorily the demands of the public, is a fact which accountants cannot ignore. If the criticisms of this intelligent and friendly banker can not be shown to rest upon misconception, changes in the existing requirements for admission to the profession are imperative.

Mr. Cannon finds that out of six hundred and seventeen candidates who tried the C. P. A. examinations in the State of
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New York during the last ten years, four hundred and nine were rejected, and is inclined to infer that a few men are retaining almost a monopoly. He believes that the examination papers, especially in practical accounting, are full of "catch questions," which would floor one-half the men now holding certificates under the waiver clause. He also thinks the New York requirement that an applicant must spend one year in the office of a certified public accountant before receiving his degree, is an unnecessary hardship, deterring many a good man from entering the profession, or, at least, from taking the degree.

Mr. Cannon is not justified, we feel sure, in his inference as to the existence of a monopolistic spirit or tendency among New York accountants. It must be admitted, however, that there are many near-sighted certified public accountants in the State of New York who do not welcome recruits to their ranks, who regard schools of accounting with disfavor, who seem to think that every young certified public accountant is a menace to their own business and incomes. These are small men, however, and are in the minority, both in practice and in influence. Narrow-minded men of the same sort are to be found in every profession, and the profession of accountancy can not fairly be judged by them. As for the accounting profession, as a whole, in New York the dominant desire is not to keep young men out of the profession, but to draw into it the best available material the country affords. Leading accounting firms in New York City are eager for an increase in the ranks of well-trained junior accountants, for the supply of such men has for some time been unequal to the demand. They would not like to have the C. P. A. examinations made too easy, but, if these examinations are unnecessarily narrow and technical, the great body of practicing public accountants in New York City will be glad to know it and will insist upon a change.

As for the character of the examination papers in practical accounting, we are inclined to agree with Mr. Cannon that they have not furnished a proper test of the candidate's fitness for the profession. We are of this opinion for two reasons; first, because the paper in practical accounting has not only tripped up many a brilliant and conscientious young student, but has even floored middle-aged practicing accountants of recognized standing in the profession; second, because we have been
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confidentially informed by leading accountants, men who hold
the degree under the waiver, that they could not now pass and
never could have passed examinations of the sort set by our
boards of examiners. We are inclined to agree with Mr. Cannon
in his implied opinion that our boards of examiners, by exag-
gerating the importance of rare and relatively useless technicali-
ties and by unduly weighting ability in the refinements of tech-
nique, have barred from the profession men who in all essential
requisites were fully prepared to undertake its work.

We do not believe, however, that the examiners have in any
degree been animated by a desire to keep worthy men out of
the profession. We are confident, on the contrary, that their
aim has been to set examination papers which shall sift out the
worthy from the unworthy, and that if they have erred on the
side of exclusion their error has been due, not to any selfish
motive, but to a most laudable desire to give dignity and value
to the degree of C. P. A.

We do not feel, therefore, like criticising the boards of exam-
iners. In our opinion they have done their best. They have
had a hard and thankless task, and friends of the profession
should be glad that they have erred, if they have erred at all,
on the side of exclusion rather than of inclusion. If there is
to be no change for the better, we would much rather have
the examinations during the next ten years carried out on the
same lines as during the last ten years, and with the same dis-
couraging results so far as candidates are concerned, than have
the examinations simplified merely in order that a larger propor-
tion of candidates may be successful.

This whole subject is too important to be settled offhand.
Three important questions are raised:
(1) What should a candidate for the degree of certified public
accountant be expected to know?
(2) What technical, administrative, executive ability should he
be expected to possess?
(3) How much and what kind of practical experience in busi-
ness must he have had?

At the present time, in the State of New York, a candidate
for the C. P. A. degree is expected to have a reasonably thorough
knowledge of auditing, theory of accounts, and commercial law,
and to be able to solve the most difficult problems which can pos-
sibly arise in the practice of accounting. We believe that most successful and well informed accountants will admit that these requirements, as they have been interpreted up to date, are too narrow in scope. To be sure, the examinations may be made to include many subjects which are not commonly regarded as part of accounting or included in the text books of the subject, such, for example, as corporation finance, the principles of investment valuation, business organization and management, organization and conduct of corporations, insurance and insurance law. The Pennsylvania C. P. A. syllabus definitely announces that the candidate will be examined in some of these subjects, but in New York nothing is said about them, and the applicant is justified in the inference that no special knowledge will be expected of him in these fields. A scrutiny of the examination papers set during the last ten years by the New York examiners shows that they expected of the candidate no more than a general knowledge of these subjects, and that their main purpose was to test him in his knowledge of the technique of accounting.

In our opinion the scope of these examinations should be broadened and made to include definitely certain subjects which all accountants of general and successful practice have found to be essential parts of their intellectual equipment. If this is not done, accountants can never make good their title to the rank of profession. They will always be open to the charge of being merely expert bookkeepers. At the present time any man with a high school education may become a certified public accountant if he gets some knowledge of commercial law, masters the theory of accounts—an easy subject in itself, though the paper under that title may be made fairly difficult by the inclusion of "practical" questions—studies one or two books on auditing, and acquires by practice great facility in the solution of problems, some of which are nothing more or less than advanced bookkeeping. Narrow training of this sort certainly does not entitle a man to professional standing, and we do not wonder that boards of examiners have, perhaps unconsciously, used all their ingenuity to produce papers bristling with technical difficulties. We believe that the standard for admission to the profession must be raised until it covers as broad a field as that required for the law or for medicine. Law and medical students, in their preparation for practice, get an education and a mental training
far superior to that which is required of a young man who is
fitting himself for the C. P. A. examinations. This ought not
to be the case, for the public accountant himself should be, and
the best of them are, liberally educated men.

In the revision of the C. P. A. standards which we hope
will be undertaken by the National Association of Examiners
organized last month in Atlantic City, the broadening of the
knowledge requirements must receive first consideration. We
hope to see, among others, the following subjects in the list of
requirements: political economy, banking, foreign exchange,
management and financing of a corporation, principles of invest-
ments, insurance, business and industrial organization. A young
man who has had a thorough training in these subjects, along
with his work in the theory and technique of accounts and in
commercial law, will have an education as scientific and liberaliz-
ing as that required of the young lawyer or young physician,
and will be much better fitted to do intelligent work as an
accountant than if he has merely been drilled in the recondite
puzzles of higher bookkeeping. Then the examination in what
is called practical accounting, if such a subdivision is preserved,
can really be made practical and rational instead of unprac-
tical and unreal as at present.

With regard to a candidate’s administrative and executive
ability, we think this a matter which can not properly be sub-
mitted to the test of an examination. A man of sound judg-
ment, who would instinctively avoid false steps in the disen-
tanglement of a business complication, might be utterly at sea
when confronted by a hypothetical problem and a piece of white
paper on which he was required to state succinctly and clearly
what policy would be the best adapted for its solution. There
is only one way to tell whether a man can ride a bucking broncho,
and only one way to find out whether a man possesses the tact,
integrity, and firmness necessary to the successful management of
a business. Character, disposition, temperament, nerve—these
are things that can not be tested by either written or oral exami-
inations. We hope, therefore, that in the future examiners will
be content to test the applicant’s intellectual attainments, and
make no effort to sound the mysterious depths of those God-
given qualities which are embraced under the terms character
and common sense. The fact may as well be recognized that a
man may possess all the intellectual qualifications necessary to attain the degree of C. P. A. and yet be an absolute failure as a practitioner. This is certainly the case with the law and with medicine, and we fail to see how it can be otherwise with accounting.

The third point—the amount of practical experience which a candidate must have had—is an important one, but it may be considered entirely apart from the question of examinations. We will not discuss it at present, except to note that Mr. Cannon is not accurate in his statement that candidates must have had experience for at least one year in the office of a certified public accountant. The Regents require that he shall have had three years' satisfactory experience in the practice of accounts, one of which shall have been in the office of an expert public accountant, and it has been the custom to regard two years spent in a recognized school of accounting as equivalent to two years of practice, so that graduates of these schools are required to spend only one year in the office of an expert public accountant. We doubt very much if this rule should be changed.

There is reason for believing that we shall see much improvement in the next few years in the character of the examination papers set for the C. P. A. degree. Accountants everywhere are very much interested in the subject, and members of the state boards of examiners, as evidenced by their organization in Atlantic City, are showing a disposition to get together and carefully consider the problem that is before them. It is quite possible that a uniform standard may be agreed upon by the examiners in all the states, and that a standard set of examination papers may be prepared for the use of the different boards. These examiners will not be long in discovering that examining, like teaching, is an art by itself, and that it can be learned only by conscientious and intelligent practice. Teachers are usually the best examiners, for their business gives them the necessary practice, yet many good teachers are notoriously poor in the preparation of examination papers and are incapable by temperament of justly rating answers. College students quickly discover faculty peculiarities. Of Professor So-and-So word is passed around that if you want a good mark you must be careful to agree with him on all disputed questions. Of another professor it will be rumored that he will not be satisfied unless long
answers are written and great attention given to detail. Another
will be known to want short answers and care very little about
agreement with his own opinions. The ideal examiner, of course,
must have no hobby of his own, and must be prepared to recognize the results of intelligent effort, even though the conclusions
may differ somewhat from his own. Ideal examiners and ideal
writers of papers, needless to say, are rare men, and this is one
of the reasons why the boards of examiners of the country
should decide to adopt a standard paper, and then search among
their members for the men best qualified by knowledge, temperament, and practice, to prepare the papers and rate the answers.

One of the leading higher commercial schools of Japan has asked
The Journal of Accountancy to recommend a capable young accountant—preferably a C. P. A., and a university graduate—as instructor in accountancy. The salary is good, and the position will probably prove desirable in other respects. Applications should be addressed to the editor.

The action of the New York State Society of Certified Public Accountants in recommending to the State Board of Regents that equivalent C. P. A. certificates of other States be accepted in New York will have a strong tendency, we trust, to bring about uniformity in C. P. A. standards. The Society has done well to emphasize the requirement of "the same degree of education and experience" as is called for in New York State.
The American Association Meeting.

The Twenty-first Annual Meeting of the American Association of Public Accountants, at Atlantic City, October 20 to 22, 1908, proved to be the largest, and, in many respects, the most successful meeting yet held. Two hundred and thirty-five delegates, members, and guests of the association were in attendance, including over forty representatives of British and Canadian associations of accountants. The number and high standing of the foreign accountants present was perhaps the most noteworthy feature of the convention. It gave an opportunity for an informal exchange of views and for broadening and unifying the interests of English-speaking accountants that was highly appreciated. No doubt one result of this intercourse was to strengthen the important movement toward raising and making uniform the standards of examinations for accountants' degrees.

A new movement, which will work in the same direction, was the formation of a National organization of members of the State boards of C. P. A. examiners. The first meeting was held on Monday, October 19, and other meetings during the progress of the convention. It was thought desirable in order to promote an entirely frank discussion of the questions to be considered to hold the sessions behind closed doors. The principal result made public was the election of a standing Committee on Information and Advice, to receive suggestions, confer with examiners, and in general take action with a view to elevating and broadening the standards of C. P. A. examinations. The officers of the National organization are: president, H. A. Dunn, New York; vice-president, William A. Chase, Illinois; secretary and treasurer, Harry Treat Beers, Connecticut.

Inasmuch as a detailed, official record of the proceedings of the convention will appear in a subsequent issue of The Journal of Accountancy, a full report of all the business transacted is unnecessary at this time. Three of the State societies, Ohio, Louisiana and Georgia, reported the enactment of C. P. A. laws by their respective State legislatures during the past year. Commenting on these laws the Committee on Legislation stated:

"They are all three alike in providing for the establishing of a Board of Examiners who shall conduct the examinations of applicants for the certificate, the Governor in each instance to appoint the Board. In Louisiana and Ohio the Board is to consist of persons 'skilled in the practice of accounting and actively engaged therein in the State,' while in Georgia one member of the Board shall be a 'practicing attorney in good standing.' The Georgia Act requires that the 'examiners shall be public accountants who have been in practice for at least five years.'

"All three of the Acts vary from the Model C. P. A. Bill in defining the general educational qualifications expressed in the latter, Ohio being somewhat more explicit than the Model Act in its requirement that the applicant shall be 'a graduate of a high school, or one who has received an equivalent education,' while Louisiana left the whole determination of
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the educational qualifications to the Board of Examiners under the general clause, empowering them to require of the applicant not only a knowledge of the four technical subjects, but 'such other branches of knowledge as the Board may deem necessary to maintain the highest standard of proficiency in the profession of Public Accounting.' In Georgia, unfortunately; no general educational qualifications whatsoever seem to be required.

"All three acts provide for the waiver, Georgia permitting the waiver to be extended to any person within or without the State who shall have been practicing for three years immediately preceding the passage of the Act, and who shall apply in writing within three months of such date; Ohio providing for a waiver term of six months for those who have 'practiced the profession of public accounting at least three years.' Louisiana requires five years' previous active experience 'as an accountant or bookkeeper,' with a time limit of ninety (90) days after the passage of the Act.

"All three Acts provide for the reciprocity clause, extending to holders of certificates in other States the privilege of receiving a certificate from either of these three States, if the Board of Examiners shall so decide, Ohio, however, requiring that 'the Board shall be satisfied that their standards and requirements for a certificate are substantially equivalent to those established by this Act.'

"All three Acts have a penalty clause declaring the wrongful use of the initials C. P. A. to be a misdemeanor subject to a fine, or, in the case of Louisiana, to a jail sentence.

"Since the passage of the Act in Ohio the Board of Examiners have been endeavoring to obtain a judicial definition of the term 'Public Accountant' and it is to be hoped that the Board may succeed in its purpose, and that the term may be defined in such a manner as to conserve the best interests of the profession."

New university schools for the training of accountants were reported by four of the State societies, namely, Illinois, Colorado, Missouri and Minnesota. In all four States members of the association are actively engaged as instructors in accountancy. The various standing and special committees submitted reports, which were accepted by the convention with slight modifications, and will be printed in a subsequent issue.

Papers of exceptional merit and interest were presented to the meeting as follows:

"Railway Accounting in Its Relation to the Twentieth Section of the Act to Regulate Commerce," by Professor Henry C. Adams and by Mr. Arthur W. Teele, C. P. A.

"Accounting Practice and Procedure," by Mr. A. Lowes Dickinson, C. P. A.

"The Accounting of Industrial Enterprises," by Mr. William M. Lybrand, C. P. A.

All of the papers were discussed as thoroughly as the time limits permitted. In view of the large number of the members who evinced a readiness to take part in the discussions, it would seem desirable in future meetings to arrange the program so as to allow for more time to be devoted to this purpose.

The election of officers for the ensuing year resulted as follows:

President, Mr. J. E. Sterrett, Pennsylvania; secretary, Mr. T. Cullen Roberts, New Jersey; treasurer, Mr. H. T. Westermann, Missouri;
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trustees, Mr. E W. Sells, New York; Mr. Robert H. Montgomery, Pennsylvania; Mr. Franklin Allen, New York; Mr. Harvey S. Chase, Massachusetts.

The social features of the annual meeting included a complimentary luncheon, tendered by the Pennsylvania Institute, on Tuesday afternoon; a reception, tendered by the New York State Society, on Tuesday evening; a reception, given by the New Jersey State Society, on Wednesday afternoon; a special session for the purpose of meeting the representatives from foreign societies, on Wednesday evening; and the annual banquet, on Thursday evening. It goes without saying that all these occasions proved thoroughly enjoyable.

State News.

Kentucky.

Expert public accountants of Louisville met in the rooms of the Commercial Club yesterday afternoon and perfected a State organization.

After discussing ways and means, the accountants assembled decided to organize, which they did, by electing the following officers: Ben C. Waver, President; W. S. Parker, Sr., Vice-President; Charles Harris, Secretary; T. E. Turner, Treasurer; and T. E. Turner, L. Cominor and O. S. Meldrum, Board of Trustees.

Application for a charter of incorporation will be made under the title of the Kentucky Association of Public Accountants, the name taken by the new organization.

Besides the elected officers, all of the accountants present became members of the association.—Louisville Herald, October 11, 1908.

Georgia.

The first examination held under the new "Certified Public Accountants' Act," passed at the last session of the legislature, will be conducted in Atlanta, on November 25. Joel Hunter, of Atlanta, is the chairman of the board of examiners; Hudson Moore, of Atlanta, the attorney; and S. C. Cooper, of Atlanta, the secretary and treasurer.
University Training for Accountancy in 1908-1909.

The Journal of Accountancy has secured statements from the authorities of each of the American universities, in which considerable instruction in accounting is given, with regard to the courses and enrollment this year. The statements are briefly summarized below:

Harvard.

Three graded one-year courses (each three hours per week) are offered. The elementary course, which is practically the philosophy of accounting, though announced as "Principles of Accounting," has an enrollment of about one hundred and seventy-five men, among whom are all the members of the new Graduate School of Business Administration, except a few who have already had the course, a few students in the Law School and other graduate departments, and over one hundred and thirty college seniors. This course has been given for eight years with a steadily growing interest and attendance. It is open only to seniors and to graduates.

In the second course, "Practical Accounting," there are five students, all of whom intend to become professional accountants. This course is given this year for the first time and was not announced until mid-summer. Many men now enrolled in the elementary course are preparing to enter "Practical Accounting" next year.

The third and most advanced course, "Accounting Problems," is announced, but not given, this year, inasmuch as no students are yet prepared for work of this grade.

University of Vermont.

Two courses in accounting, one elementary and one advanced, are offered. The number of students enrolled this year is somewhat smaller than in some previous years, but the interest manifested by those who are taking the work is quite satisfactory. Although the courses are regarded as technical, they draw a number of students whose studies are chiefly classical and literary.

Dartmouth.

Two courses, one elementary and one advanced, are offered in the Tuck School. As the courses are restricted to senior or graduate students the enrollment is small. The interest in such work, however, is satisfactory and growing.
Editorial.

New York University.

The work in accounting proper consists of one first-year course through the year in "Principles of Accounting"; one second-year course through the year in "Accounting Practice" and four second-year courses, each running through a half-year, in "Cost Accounts," Executors' Accounts," "Railroad Accounts" and "Investment Accounts"; two third-year courses through the year in "Advanced Problems" and in "Auditing" and two third-year courses, each running through a half-year, in "Corporation Accounts" and in "Philosophy of Accounts." Each course meets two hours per week.

The number enrolled in the first-year course is 338. The average number in each of the second-year courses is 124; in each of the third-year courses, 83.

University of Pennsylvania.

The Wharton School of Finance has an enrollment this fall of 470 men, against 430 last year. The increase has taken place in spite of an elevation of the entrance requirements for special and partial students. Four accounting courses, in addition to courses in allied subjects, such as business law, corporation finance, banking and credit, industrial management, and the like, are offered. The director writes:

"While I am unable to give the number of the men who are preparing for the profession of Accountancy I notice a very material increase in the number of inquiries for our courses in this line, which leads me to believe that the profession under the new educational conditions represented by the State Board examinations in various states, is attracting a much larger number of well qualified men, and that the prestige of the profession should profit thereby."

Additional courses in accountancy are offered in the university's evening school of accounts and finance. In this school the total enrollment is about 500.

George Washington University.

The course in "General Accounting" (intended for beginners) has an enrollment of twenty students, which is larger than in previous years. A new course in "Economics of Transportation," in which about two months are devoted to railroad accounting under Prof. H. C. Adams, has fifteen students.

Ohio State University.

Two courses are offered: an elementary course, entitled "Accounting and Statistics," which is a two hour course for three terms; and a course in "Advanced Accounting and Auditing," which is a three hour course for three terms. Another course offered is "American Industries,"
which is closely related to the subject of accountancy. In the "Elements of Accounting," ten students are registered, and in advanced accounting there are four students. This is the third year the "Elements of Accounting" has been offered; and the second year for the course in advanced accounting. There seems to be a great deal of interest in this line of work, and it promises to develop rapidly.

Cincinnati College of Finance, Commerce and Accounts.

The college offers this year two one-year courses, one in "Theory and Practice of Accounting" and one in "Advanced Accounting." The first-named class numbers about thirty-five; the second, about fifteen.

St. Louis City College of Law and Finance.

Two courses are offered this year, one in "Principles and Elements of Bookkeeping and Accounting" and the other in "Advanced Accounting and Auditing." The work is just being started and has aroused much interest. About forty students are enrolled in the beginning class.

University of Illinois.

The number of students registered in course 1, which runs through the year, is 47. There are 21 in each of the two second-year courses. This makes a total of 68 registered in the accountancy courses for the year. A third year course was also elected by a considerable number of junior students, but on account of pressure in the other courses the University was compelled to ask them to defer it until next year.

There has been a considerable increase in the number of students registered in the courses in business administration, as a whole, about thirty per cent. over last year, the total being 191. This year a good many freshmen have expressed their intention of taking the four years' course in accountancy, although no subjects in accountancy are open to freshmen.

Northwestern University.

The new evening School of Commerce of the University in Chicago has opened with a total enrollment of over two hundred, which is a remarkably good showing. Two one-year courses in accounting are offered. There are about eighty students in the "Intermediate" course and about sixty in the "Advanced" course.

University of Iowa.

The one-year course in "Elements of Accounting" is attended by twenty-six students, almost all of whom are juniors or seniors in the
Editorial.

College of Liberal Arts. A course in "Advanced Accounting" is announced, but is not given in 1908-09. These courses are regarded as only the beginning of what will ultimately be offered in the field of higher commercial education.

University of Wisconsin.

About seventy students are taking the sophomore course in "Elements of Accounting"; thirty-five are taking the junior course in "Theory and Practice of Accounting"; and thirty-two are taking the senior course in "Advanced Accounting and Auditing", the senior course in "Business Organization and Management", or both courses together. The interest in the advanced accounting work is very satisfactory and in this respect, as well as in numbers, there is a marked gain over previous years.

University of Minnesota.

The systematic training in accountancy is offered through two courses. "General Accounting" in the first semester will develop the basic theory and philosophy of accounts and give practice in numerous accounting sets taken from concerns in widely varying lines of business. "Corporation Accounts" in the second semester will cover the field of general corporation accounts and will develop through class work systems of accounts for the local and general offices of banks, telegraph, express, and railroad companies, closing with an Interstate Commerce Commission report. The continued generosity of the Society of Public Accountants will enable additional special lectures to be offered frequently by experts in particular lines.

Lively interest is being shown in the accounting work both at the university and in the communities of Minneapolis and Saint Paul. The general course, which was announced less than a week before the opening of the university has a large enrollment. The widely expressed goodwill of accountants and business men throughout the state promises vigorous growth and wide influence for the work.

University of Denver.

The new evening School of Commerce, Accounts and Finance of the university was opened on September 15. The Dean is J. B. Geijsbeek, C. P. A., and the school is primarily designed to give instruction in accounting. The enrollment in the beginning class in "Practical Accounting" is about twenty. Several advanced courses are announced, but will not be given until students have been prepared to take advanced work.

Consolidating these reports, we find that from 1,000 to 1,200 students are taking up for the first time this year a university course in elementary accounting. The number of students taking advanced work is probably
about 500. It would be interesting, but unfortunately is impracticable, to
determine how many of these young men are preparing for public
accountancy. It would perhaps not be far from correct to say that 75% of
the beginning students and 50% of the advanced students take
accounting as part of their general business training. This would still
leave over 500 men who within the next three years will go out of the
universities intent on becoming either corporation or public accountants.
Fortunately for them the demand for trained accountants—particularly for
factory and corporation accountants—seems to be growing with even
greater rapidity than the supply.

Nine years ago university work in accountancy was practically
unknown; five years ago only Harvard, Dartmouth, the University of
Pennsylvania and New York University had entered the field and the
number of students was small; even last year there were probably not
more than 600 entering students of accounting. It is evident that within
the last twelve months there has been an extraordinary development in
this line.

In most universities an accounting course is still a novel and untried
experiment. With the record of the last few years in mind, it seems
dangerous to predict how far the movement will extend.
State Society News.

New York.

At the meeting of the State society, on November 9, 1908, the following resolution was moved and carried:

RESOLVED: That the New York State Society of Certified Public Accountants respectfully recommends to the Honorable Board of Regents of the University of the State of New York, that provision be made for the issue of certificates without examination in certain cases, as follows:

Any citizen of the United States, who is a holder of a C. P. A. certificate from another state, who has been actually established in the practice of public accountancy for three years, one of which must have been in this State, upon his written application, indorsed by three certified public accountants of New York in active practice and good standing, and upon the recommendation of the Board of Examiners, may receive a certificate as a Certified Public Accountant of New York, provided that he is not less than 25 years of age and establishes to the satisfaction of the Board of Regents his possession of the same degree of education and experience as is required for the issue of a similar certificate in this State.

Colorado.

The annual banquet of the Colorado Society was held on September 29, 1908. A total membership of 58 was reported. Mr. George Wilkinson, of New Jersey, and Mr. Harvey S. Chase, of Massachusetts, were elected honorary members in recognition of the aid they gave in organizing the society. The following board of directors was elected: Alexander E. Fowlie, John B. Geijsbeek, Joseph H. Kingwell, Thomas F. McGuire, Alvin V. Sampson, John S. Williams, Albert A. Miller and Hiram E. Hilts.

Oregon.

At a meeting last night of a number of the leading accountants of the city an organization, to be known as the Oregon State Society of Public Accountants, was formed. The following officers were elected: President, W. R. Mackenzie; Vice-President, J. J. Chambreau; Secretary and Treasurer, Arthur Berridge; Auditor, Alex C. Rae; Directors, J. W. Ferguson, E. H. Collis, William Whitfield, George T. Martin.

The object of the society is to elevate the profession of public accounting, and to unite all of the public accountants in the State in one organization. It is also the purpose of the new body to procure state legislation covering the profession similar to that in force in Washington and California.—Portland Oregonian, September 29, 1908.
Correspondence.

Sinking Fund Accounts.

To the Journal of Accountancy:

The article in your October number by Mr. Walton on "Sinking Funds and Reserve Accounts," and your editorial comments on the same are of peculiar interest to the writer, for the reason that he has wasted a great deal of ink and paper in unsuccessful efforts to induce certain eastern professional accountants to accept the theory of the case so clearly expressed by Mr. Walton.

Granting the truth of all that you have stated in your comments on this article, still it does not appear that Mr. Walton's argument is refuted.

It seems a great mistake for accountants to allow this subject to remain in its present obscure, uncertain condition.

It is the belief of the writer that this condition has been brought about by the failure of accountants to properly occupy their own field, which through their lack of self assertion and clear thinking has been usurped by lawyers. Do we not find that the courts defer to physicians in matters of medical practice and do we not find the judiciary just as ready to listen to the accountant when he has any reasonable ground on which to base the faith that is in him?

It would surely puzzle most of us to explain as an expert witness a reason for naming one account "sinking fund" and another "sinking fund account," meaning something entirely different.

Because some lawyer who very likely knows much less of accounts than the average accountant does about law, happens to insert in a trust deed something in the nature of a definition of a "sinking fund" should we therefore adopt his definition, if contrary to accounting principles?

To illustrate, a certain trust deed given to secure the payment of an issue of income bonds provides that interest not exceeding six per cent. shall be paid out of "net earnings." Should we have construed this term in accordance with the custom of accountants, the company would have been forced into the hands of a receiver. But later in the same instrument "net earnings" are described substantially as the sum remaining of the gross incomes and receipts after all expenses, including all obligations incurred for additions and betterments, taxes, sinking funds, interest on funded debt have been paid, as well as the entire floating debt of the company. The company is saved from embarrassment to be sure, but what a definition of "net earnings"!

Should we not construe sinking fund provisions in accordance with their intent, and in working out this intent and putting same into practice, apply accounting principles thereto?

How can a sinking fund be a fund at all and fail to be a sum of money set apart, for some specific purpose to be sure, but still an asset of the company and represented by a debit account?
Correspondence.

Now if the sinking fund provision provides also (and this should not be presumed) that earnings should be reduced by this sum, even though it may seem absurd, let us carry out the agreement embodied in the trust deed and charge an equivalent amount against earnings creating a credit account for which we may be obliged to invent a name, for to call it a reserve seems like a misnomer, and to call it "sinking fund account" would be worse yet.

Yours truly,

C. N. Hamblin.

Jamestown, Cal., Oct. 28, 1908.

The Railroad Cost Accountant's Functions.

To The Journal of Accountancy:

In Mr. H. C. Adams' paper on Railway Accounts, presented at the convention at Atlantic City last month and published in the October Journal, is a reference to the principles of cost amounting in connection with railway work. Mr. Adams states that "had the construction of a system of railway accounting been handed over to the cost accountant, the operating office would have fared badly indeed. * * *"

In the preceding paragraph he comments on certain requirements of officers and heads of divisions "who desire to use accounts as a measure of efficiency, or as a whip to enforce discipline."

My conception of a proper system of cost accounts is that it should show absolutely every fact of value to the management, whether it be in a transportation company or a private wood-working manufactory. If cost accounts properly coupled up with the financial books do not show the "measure of efficiency" in any business, they are useless.

As to being "a whip to enforce discipline," any information obtainable as to the conduct of employees, whether contained in the accounts or otherwise, can be so used. The costs, if correctly arrived at, certainly reflect the degree of competence, and, if the results are good, the management may strictly draw the conclusion that discipline is being enforced.

My belief, therefore, is that every feature of railway accounting wherein cost accounts are a factor, can be so treated by the competent cost accountant that the management can be supplied with all the facts, and that this need in no wise interfere with the results desired by the commission. And, furthermore, that the commission can, with the aid of men with the necessary accomplishments, introduce uniform cost reports to be taken from the books of the various roads, which will give the desired information without interfering in any way with the requirements of officials and heads of divisions. The operating officer requires details—the commission, totals. There really seems to be no difficulty in supplying both from the same set of accounts.

A. G. Potter, C. P. A.

Flushing, N. Y., Nov. 8, 1908.
The Journal of Accountancy.

C. P. A. Examinations.

To The Journal of Accountancy:

There have been several articles lately in The Journal respecting C. P. A. examinations in the different states.

I should like to see a board of examiners appointed from the American Association, at their annual meeting, and the questions for each half yearly examination prepared by said board and printed in sufficient quantities to be sent to each city holding examinations on a given date. Arrangements could be made with the certified public accountants of the respective cities to superintend the examinations, the questions for each day being sent under seal of the board of examiners, to be opened before the candidates, and their papers being sealed before them, and forwarded to the board by the C. P. A. in charge. This would insure a uniform standard throughout the States, and that standard would then be fixed by the authority most qualified to regulate same.

I realize, however, that objections to this arrangement may be made by the State boards of the various States. Many members of our State boards are eminently qualified to hold such office, but it is also probable that others hold such office by political appointment, and are utterly incapable of fulfilling the duties of such a position, and while such men have the power to grant C. P. A. certificates, the profession can not expect to command the confidence of the public which is so necessary for its future advancement.

Yours very truly,

"Accountant."

Louisiana.

Mr. Charles E. Wermuth, who is one of the new State board of accountants, said to-day that the probabilities are the board will not conduct an examination before 1909. The law provides for at least one examination a year, but as the rules and regulations must be framed, it will require time to get into working order.—New Orleans Item, September 30, 1908.

Luttrelle C. Rice, public accountant and auditor, announces the opening of an office at 1012 James Building, Chattanooga, Tennessee.
Legal Department.

Edited by Charles W. Gerstenberg,
Ph. B., LL. B.

Some Suggestions for Withdrawing Partners.

It is an old and established rule that the members of a partnership can not convert a firm debt into a separate debt of one of their members without a contract to that effect with the creditor; accordingly, if a firm is dissolved and its members agree that one shall take the assets in consideration of his assuming and paying its debts, this agreement does not discharge the retiring partner from liability to firm creditors; but a retiring partner may be discharged from any existing liabilities by an agreement to that effect between himself, as one party, and the members of the firm as newly constituted, or the individual, association, or corporation carrying on the business, as the second party, and the creditors as third party; and this agreement may be expressed either orally or in writing, or may be inferred as a fact from the course of dealing between the creditors and the firm as newly constituted. The agreement to substitute the obligation of the successor to the old partnership for the joint and several obligation of the old partners need have no further consideration to support it, to make it binding as a contract upon the creditors, than the mere promise of the successor or successors to assume the liability. It may be noticed, therefore, that there is no possible way of withdrawing from the firm and escaping liability for its debts except by a contract express or implied to which the creditors are a party. An agreement with the remaining partner to relieve the retiring partner from liability is binding on the remaining partner only, and such a contract is no better than the word of the remaining partner, plus his ability to perform his obligations to the creditors. In case a contract is made between the partners that one shall pay the firm debts upon taking the firm assets, the relation of principal and surety is created between the purchasing and selling partners. It will be necessary, however, for the retiring partner to give due notice to all the firm creditors. Now, the retiring partner's position as surety differs from that of an ordinary surety in this, that he can not compel the creditors to sue the remaining partner. (If he were in the position of an ordinary surety he could demand the creditors to sue at once, and if they did not proceed he would be discharged by their neglect to go ahead promptly.)

But the retiring partner would be discharged from all liability if the remaining partner assumed the liability, if the creditors had been given notice of this fact, and if the creditors did one of the following acts: 1. Extended time for payment of the debts by making a valid agreement with the assuming partner, such as, for instance, accepting his note, which act would prevent the creditors from suing until the note came due (a mere verbal promise from the creditors to extend time for payment
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without a valuable consideration for the promise would not constitute a
valid contract and therefore would not operate to discharge the retiring
partner); 2. Voluntarily compromised the debt of the old firm; 3. Released
securities of the old firm held by the creditors. Of course, any one of
these acts committed by one creditor will affect his claim only,
and the claims of the other creditors against the retiring partners will
still be enforceable.

It will be seen, therefore, that the retiring partner must have the
consent of the creditors before he can discharge himself of the firm's
liabilities. This consent may be expressed or may be implied from the
acts of the partner, such acts, being, for example, the compromise of
claims with the assuming partner.

Now, if it is impossible or inexpedient to get the consent of the
creditors the retiring partner may secure his discharge by securing the
performance of the promise of the remaining partner to pay the debts of
the firm. This can be done in any one of the following ways:

1. By paying the creditors immediately by a loan made to the assuming
partner, on which loan the latter solely will be liable.

2. By placing in the possession of the retiring partner securities, such
as a mortgage on personalty or realty, conditioned on the full payment of
the firm debts by the remaining partner on or before a specified time.
(This method is recommended where the remaining partner has all his
property in the name of another person, for example, his wife.)

3. By procuring an indemnity bond of a company, individual or group
of individuals, who have power to give such a bond, or by any agreement
of guaranty or suretyship. For example, a note may be made out to the
firm by the assuming partner payable, say, in six months, or on demand
(or at any time at the expiration of which it is fair to assume that the
debts should be paid). This note then should be endorsed by one or more
responsible parties or signed by them as surety, or they should guarantee
its payment. Of course, care must be taken to see that these parties
shall be properly bound. At maturity, the note could be sued upon if the
debts were not paid, or in case a demand note were given, demand could
be made at any time the creditors actively pushed their claim. If such
a note were given, and its existence were brought to the attention of
impatient creditors, the very fact of its existence might be enough to
avoid a crisis.

Notes of Recent Cases.

Compensation of Unlicensed Accountants.

The Appellate Division of the First Department of the State of New
York has handed down two decisions which, while not bearing directly
on the profession of the accountant, are of interest as indications of
what the Court would say were an accountant who had not complied with
Chapter 312 of the Laws of 1896 to sue for the recovery of a fee. The
first case is that of People vs. Christian, reported in volume 722 of the
Appellate Division Reports at page 842, in which the Court declined to
Legal Department.

lay down a hard and fast rule as to what acts constitute the practice of medicine. The Court has usually held in similar cases where it has been sought to charge a person with carrying on a profession in violation of the statute requiring as a condition precedent, the procuring of a license that the question was one for the jury—Smith vs. Lane, 24 Hun, 31. In most jurisdictions it would be necessary for the licensee, be he physician, auctioneer, or accountant, to prove in an action for his fee that he had procured his license. In New York State there is a presumption that a license has been procured until the contrary is shown. McPherson vs. Chesdell, 24 Wend. 15; Thomson vs. Sayre, 1 Denio 175. See contra Adams vs. Stuart, 5 Harr. (Delaware) 144.

The statutes of some states make the procuring of a license an unqualified condition precedent to the recovery of a fee. In most other jurisdictions the courts have held to the same effect. Fox vs. Dickson, 34 New York State Reporter 710.

The other case to which we referred at the beginning of these notes is that of Fox vs. Smith, 123 Appellate Division 369, in which it was held that an individual who without a license, undertakes for hire to act as a private detective for the purpose of securing evidence is not entitled to recover his disbursements or the agreed price of the services rendered, notwithstanding the fact that the plaintiff was not conducting a regular business, but was suing for the services rendered in a single instance. This case is a close one and can hardly be reconciled with Smith vs. Lane above referred to. The Court was divided three against two and the prevailing opinion was based upon the fact that the Court took judicial notice of the fact that many private detectives, especially those who were not thoroughly established and had no reputation to lose, were apt to be "dishonest and dishonorable persons" who "have been quite unable or unwilling to resist the temptation to resort to perjury and blackmailing."

Were the question to arise involving the right of a public accountant, who had not complied with the statute, to collect his fee, it is very probable that the Court would follow the line of decisions laid down in connection with physicians and surgeons.

It may be well by way of conclusion to state that where a license employs a student to render services the licensee may recover for those services although the actual person rendering the services is not yet qualified under the statute. People vs. Monroe, 4 Wend. 200.
Current Magazine Articles.

Pastures New.

A fresh field for young men of ability is being opened up. The certified public accountants of this country and of Great Britain and Canada met in convention a few days ago at Atlantic City. There were London worthies, with huge jeweled seals hung round their necks, as though they were going to a Lord Mayor's banquet—typical "City" men, these, as Thackeray might have drawn them, rather proud of their lack of vacations, proud that their clerks feared the business would go to the bow-wows when the "governor" was away, convinced that the good old English employee is degenerating under the present-day love of ease and amusements. There were men from Edinburgh and Dundee. The Scots are great accountants, and it was in Scotland some fifty years ago that accounting as a profession was first established. And there were men from Montreal and Toronto, and Nova Scotia, and all over the United States. Accounting as a profession, like doctoring or engineering, began in this country in 1896, when New York State passed a law compelling all public accountants to pass a Regents' examination and receive proper certification before they could practice as "C. P. A.'s." The growth of the profession has followed the growth of corporations and holding companies. It is the business of these painstaking and meticulous gentlemen to unravel and set in order the complexities which such businesses produce. They will take a business which your grandfather set on its feet, and which you and his other decadent descendants are mismanaging, find out just where the dry-rot lies, and put the house in order. It is uncomfortable for you, but good for the business. They will sift and systematize anything, from a household account to the budget of a government. Theirs is a profession worth the consideration of young men with a turn for mathematics.—Collier's Weekly, November 5, 1908.

A Field for Young Men.

Young men who are determining upon a livelihood had better look into the possibilities of public accounting. Private business firms need increasingly the services of certified accountants, who may obtain their degrees from the State, by passing examinations prescribed by the Board of Regents. They are needed to go over the books, detect antiquated methods and systems, and substitute therefor more modern and accurate business devices. As corporations grow, these complexities become more insistent of unraveling and reform.

So likewise in municipal accounting. Mr. William H. Allen recently stated in The Journal of Accountancy that one thousand efficient
Current Magazine Articles.

young men were wanted immediately to perform the well paid duties of analyzing the business systems of cities. Controller Metz complained the other day that this city's bills and salary lists were not properly audited; that "the system is bad, and we haven't enough men. Until we get enough men, the city will continue to be cheated out of thousands of dollars every year." Mayor Hibbard, of Boston, undertook this week a radical reform in making up the annual budget for that city; his chief difficulty will lie in the dearth of efficient accountants. The cities of Louisville, Newark, New Rochelle, Holyoke—in fact, according to Mr. Allen, "over half the cities in the United States"—are now demanding expert leadership in business methods, so as to prevent extravagance and fraud.

The disposition that is manifest in all departments of public and private affairs to analyze improper and wasteful methods, and to supplant them, is not the least hopeful sign of our times. In this work young men of ability will take an important part.—New York Times, November 7, 1908.

Borrowers Must File Statements.

The agreement that is under negotiation between banks of New York and Chicago—and which presumably will spread to other cities—to refuse loans to all firms and corporations not willing to file a complete statement of their condition, indorsed by an independent certified public accountant, is attracting much attention in commercial paper circles here. Some of the Western banks, it is understood, are desirous even of discriminating against the commercial paper brokers, and place in effect as far as possible the Canadian idea of customers borrowing direct from their own banks, with whom they keep accounts. This idea is not likely to receive much support in New York, however, as the commercial paper brokers are very close to the New York banks and are considered necessary adjuncts for business.

The large banks regard the time quite opportune for starting a demand for statements. The failure of Booth & Co., of Chicago, and the Pillsbury Mills of Minneapolis has spread much nervousness as well as for them large losses among the country banks. Large concerns, who by their facilities for borrowing in country banks have been more or less independent of the banks in the larger cities, are beginning to feel the effects of the scare among the smaller institutions, and in one instance it is known a formal loan will soon be issued to meet the new conditions.

So far as the New York banks are concerned the statements that are desired are independent ones prepared on forms agreed upon by the New York State Bankers Association. A copy of the desired form appeared in these columns last Friday. It is also desired that the statement be indorsed by some of the well known firms of certified public accountants. Some of the Western banks suggest that the indorsement of companies making a business of auditing be made acceptable, but there appears in certain quarters a distinct antipathy to the auditing by these companies. The
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antagonism, as explained by a well known bank officer yesterday, is quite as pronounced among the large concerns whose accounts are to be thus independently audited as it is among lenders. The large industrial concerns place a very high value upon their "secrets" of manufacture and what they regard as the confidential part of their business generally. The class of employees sent by some of these auditing companies is, it is contended, such as certainly not to inspire confidence, some very young men having, it was stated, been sent in some instances on important branches of work. While their work may be regarded as routine, it has nevertheless been considered as raising the possibility that an immature "accountant" of this character may not recognize the necessity of keeping inviolable the affairs of the concerns that may come to their notice.

Another objection on the part of the large concerns to the preparation of their statements by auditing companies is, it is said, the prominence of large financiers, their own competitors, on the boards of these auditing companies. The claim is, of course, made that the directors of any of the auditing companies are in no way concerned in the practical details of their company's work, and that the leakage of any details of any company under examination is an impossibility. The explanation does not, it is argued, convince the managers of the companies under examination that any special director could not without difficulty learn their trade secrets if a desire existed to do so.

On the other hand, bank officers and other lenders would in many instances prefer statements prepared by individual accountants of known reputation rather than the "young men," as they call them, of the auditing companies.

So far as certified public accountants are concerned there can be no question, it is asserted, that a scarcity in the supply does exist in and about New York. This is ascribed to the operation of the Public Accountant Law, which was enacted as far back as 1896. By that law all certified accountants were allowed to continue in practice, but distinct handicaps were placed upon any increase after the law went into operation. The use of the abbreviations C. P. A., or any other words, letters, or figures to indicate that the person using the same is a certified public accountant, is prohibited except for those holding Regents' Certified Public Accountant certificates. The interpretation of the law is in the hands of the Regents of the New York State University, who makes rules for the examination of persons applying for certificates under the act, and appoint a board of three examiners for the purpose. This board consists of three certified public accountants, and the contention in some quarters is that the restrictions in the form of severe and complicated examinations are such that more or less of a monopoly exists in the profession of public accountancy at the present time.—Journal of Commerce (N. Y.), October 6, 1908."
Book Department.


To outline in these pages the contents of Colonel Sprague's Philosophy of Accounts is needless, for the readers of the Journal of Accountancy are already familiar with the work; to criticise it is indeed a difficult task, for the author has so combined scholarly erudition, philosophic insight and practical experience as to disarm any reviewer. There remains therefore only the pleasant, though somewhat superfluous task of paying tribute to the masterly little treatise, with which no other American work can properly even be compared, with which even the wide literature of Germany can furnish but few rivals.

Despite its forbidding and somewhat misleading title Colonel Sprague's work is of great practical value, not only in the sense that any sane exposition of theory has practical value but because it contains much more than a theory of accounts, at least half the book being made up of suggestions based on the author's own experience in accounting practice.

American works on accounting and bookkeeping have almost without exception been mere practical manuals, not scientific or theoretical treatises. Yet even in these practical handbooks occasionally gleams a theory of double entry bookkeeping. But most of these follow the same model, and the theory that has been steadfastly presented has not only been fragmentary but misleading and valueless. The present author has broken with the line of theory traditional with American writers, and agrees in general, although not in detail, with that current in Germany and known as the theory of Hugi and Schaër.

The conventional explanation of the theory of accounting is to treat each account as though it represented an actual relationship of debtor and creditor, carrying out the principle by a forced and unnatural personification. Connected with this has been the formulation of a rule of thumb for debiting and crediting, which in its most extreme form appears in the common formula "Debit all that comes in and credit all that goes out." In this treatise the author rejects the principle that there is in all cases a debtor—either assumed or real—and shows that the various accounts, instead of uniformly presenting the single relationship of debtor and creditor, are essentially different in their nature and are to be divided into contrasting groups. With this understanding of the nature of the accounts the uniform formula for debiting and crediting of course fails, and the author clearly shows that "debit" has an altogether different meaning in one set of accounts from what it has in another.
The Journal of Accountancy.

The system of classifying accounts differs too from the traditional one. For some strange reason most American texts have clung to the antique and illogical classification of accounts as "real, personal, and fictitious." This is abandoned in favor of two groups: Specific Accounts (that is those indicating assets and liabilities), and Proprietorship Accounts. But unfortunately the author's terminology is not entirely clear, for he introduces occasionally the phrase "basic accounts" as including cash and merchandise, without clearly defining the term, nor showing how these accounts fit into his general scheme of classification. There is also a little vagueness, although no real contradiction in the use of the term "economic accounts," it being at times uncertain whether these are or are not proprietorship accounts. The author also classifies accounts as exterior and interior but this is merely a variation in nomenclature and corresponds in lines of cleavage with the original division into specific and proprietorship accounts.

Even so lucid an exposition of theory as that given by Colonel Sprague must contain points which seem less clearly and felicitously put. But these are points of minor detail, generally mere matters of questionable expression which in no way affect the argument, or the soundness of the author's theses. Such infelicities occur where the author speaks of outlay as in every case implying service received, which may be true where there is an outlay for expense but it is not where a pure loss is concerned. Again the distinction between the two sides of the balance sheet that "the credit side gives the distribution not of actual assets but of the value" is unsatisfactory, for in any case every account, on either side, deals only with its value. The statement that "the right hand side of the balance sheet is entirely composed of claims against or rights over the left hand side" while capable of correct interpretation is apparently too close an approach to the personalistic theory rejected by the author. And, finally, the author's discussion of the so-called materialistic and personalistic schools hardly does justice to the point at issue. The schools are divided not so much on the question as to whether assets are things or rights against persons as they are on the treatment of the proprietorship and economic accounts. The real dispute is as to whether these too are to be treated as representing an assumed debt relationship, or whether the specific and proprietorship accounts are two distinct groups of accounts (Kontenriehen) each with a distinct significance and distinguished by having the positive and negative sides reversed.

Turning to the more practical portion of the book it would be invidious to select particular section as being especially meritorious, for each chapter, whether dealing with the history and use of the journal, the description of posting mediums, the prevention and detection of errors, or other topics of practical importance, is lucidly written and both scholarly and suggestive. The monographs on the cash account and the merchandise account are also so valuable that one can not but regret that the author altered his original plan of treating in detail all the principal forms of accounts.
Book Department.

A most valuable feature of the book is the emphasis placed on the relativity of accounting forms. In many texts on accounting the student is told that some transaction must be recorded in a certain way, that particular books are to be used, that certain forms are to be observed. If for nothing else the present work has done a service in showing that accounting forms are not fixed and absolute; that "they may be deviated from when anything is to be gained." A most refreshing contrast to the rigid prescriptions which so frequently mar accounting treatises is the author's statement that the propriety of using a particular account "depends on personal and administrative considerations, theoretically either procedure is correct," or again: "It is not necessary that a trial balance or a balance sheet should always be two-sided."

H. R. H.


This work by the principal of the Manchester Municipal School of Commerce covers widely divergent topics. These include: practical directions as to method of procedure in auditing accounts; instruction as to the technical entries to be made in complicated transactions such as those relating to partnership organization and dissolution, joint stock companies, sinking funds, etc.; outlines of systems of accounts adapted to particular institutions, such as banks, societies, insurance companies, and building associations; a resumé of the legal provisions regarding the income tax, bankruptcy, executorship, etc.; and description of operations in banking and foreign exchange.

The work is of less interest to American accountants because so much of the space is given up to details of English law. This applies not merely to the chapters specifically treating of legal matters, as that on the income tax, but also to those describing particular systems of accounts. These too contain more reference to the specific forms obligatory under British law than discussion of the accounting principles involved.

This indicates at once the merit and the defect of the book. The merit in that it doubtless serves well its purpose as a text for detailed instruction; the defect in that it is of a local rather than general interest, and an interest in details and forms rather than in principles.

The treatment of partnership accounts though fragmentary is well done. In particular may be mentioned the exposition of the methods of accounting demanded by the decision in Garner vs. Murray, a point on which there has been much confusion, and one in which even Dicksee failed rightly to interpret into accounting terms the decision of the Court. It may be noted that the solution of the problem (relating to the treatment of a claim against an insolvent partner) which the author, in opposition to the opinion in Garner vs. Murray, upholds as theoretically correct, is supported by decisions in our state courts, as for example in Raymond vs. Putnam (44 N. H., 160) and in Whitcomb vs. Converse (119 Mass., 301.)
Interesting is the author's contribution to the vexed question of nomenclature regarding "reserves". He suggests that a credit account designed to cover recognized depreciation or other similar allowances should be called "Provision for depreciation, etc.", rather than "Reserve". The latter term he limits to a reservation of actual profits, and "reserve fund" to a reserve for which the assets side of the balance sheet shows a special investment.

Of interest, too, is the chapter on statistical returns in which is emphasized the value to accountants of diagrammatic representations. But the descriptive chapters on banking and foreign exchange, at best somewhat out of place in a work on accounting, are of less value and unhappily not free from errors in detail.

An appendix contains the revised form of Table A of the Companies' Acts as promulgated by the Board of Trade in 1906, and each chapter is followed by a series of questions and problems suitable for the use of students.

HENRY RAND HATFIELD


The subtitle of this volume reads, "Shop system, estimating, wiring construction methods, and hints on getting business." On the technical side, the book is a popular treatise for the use of wiremen and contractors, and as such does not differ materially from other books of its kind. It notices some new devices, for instance those adapted for use in the recent type of concrete buildings.

The chief claim of the book, however, to the attention of its readers is its very good suggestions as to business methods and legitimate means of increasing profits and getting trade. In this direction it is of benefit not only to the contractor but to his customer as well. It is a pity that the little work of some 150 pages does not contain more of such excellent material and less of the stock rules of the wireman's trade.

J. L. A.


The period during which Walpole controlled the policies of England has been often and fully covered from the point of view of the political historian, but the economic policies of his time have been, heretofore, neglected. Dr. Brisco has given us a clear understanding of the latter, by arranging in a chronological form the economic facts of the period, and presenting the theories which were an outgrowth of the discussions over the excise. To the historian belonging to the recent past, the age of Walpole presents little to chronicle, but it is during these times of least political excitement that economic growth and industrial change are most active. The author has grasped the significance of this, and has shown how the economic affairs of a nation constantly react upon its political growth.
Book Department.

The following chapter headings will indicate the scope of the work, although a list of the sub-topics treated would be necessary to give any real idea as to the application which the author makes of his material. The chapters are as follows: "Robert Walpole," "The Man," "Fiscal Policy," "Reform in Taxation," "Reforms in the Tariff," "Bounties and Colonial Policy," "Industrial Policy," "Foreign Trade," "England's Debt to Walpole."

The student of business methods as applied to the government of a great nation will find much that will throw light upon modern administrative policies and methods by a study of English economic policies when that nation was just entering upon the plane of modern political organization.


Government interference may be divided into two kinds—general and specific. In the first division are the questions of taxation, fundamental laws, etc. In the second division are questions pertaining to any particular class, such as agricultural education, regulation of diseases of live stock, etc. The author confines himself in this volume to a discussion of the second class of governmental interference. He bases the nature of and the necessity for such interference upon the status of the rural industries at any particular time. This status has been conditioned by what he calls "three great shifts,"—the shift in geography, in methods of practice, and in institutions.

In part two of the book, the author gives special attention to the methods which ought to be pursued in aid of the agricultural interests. Many of these are suggestive. "Every farming community," he says "should have a board of trade, holding regular meetings in a regular place." Mr. Bailey sees the largest opportunity for State help in the field of organizing and assisting a system of co-operation among agricultural groups. In looking at the necessity for working together in order to avoid waste of effort the author seems to lose sight of the dangers which this method would lead to if followed to its logical conclusion. "To assemble, direct, strengthen, to make effective the native co-operating expressions of the people, is an office the results of which are beyond all imagination." No doubt! But the result might not be in harmony with the author's image.

One can not commend too highly the spirit of this book. The author writes with a sympathy which is rare, combined with a thorough knowledge of his subject. All these qualities have the effect, not only of impressing upon the reader's memory much useful information, but of changing his point of view.
C. P. A. Question Department.

Conducted by Leo Greendlinger, M. C. S.

Below are given fifteen questions, with answers, on each of the following subjects: Theory of accounts, auditing, and commercial law. The questions are selected from New York, Pennsylvania, Michigan, Maryland, Illinois, Florida, Washington, California and English papers of 1907 and 1908.

QUESTIONS IN THEORY OF ACCOUNTS.

(1) A corporation has an issue of preferred stock entitled to cumulative dividends of 7% a year. The dividend payments are in arrear. Should the arrears of dividends appear on the balance sheet, and if so, how should they be stated?

(2) How should inventories be treated in closing the ledger at the end of a fiscal year? Is the common practice of adding the inventory of goods on hand to the credit side of a merchandise account theoretically correct? Explain fully.

(3) In case a manufacturing company having purchased a large stock of material during the year at low prices, but at time of annual inventory values had increased. How in your opinion should the inventory be valued, at cost or prevailing market price?

(4) State in the form of journal entries the following transactions:

(a) Installment notes given on purchase of real estate, the face of said notes including interest charges up to maturity of the notes.

(f) Loss by fire of buildings, fixtures, and merchandise; loss sustained by owner over and above the insurance carried and the amounts due and collected from the insurance companies.

(c) Increase in valuation of real estate.

(d) Note of a customer returned with a protest charge from the bank where it had been left for collection.

(5) A merchant who has been in business for twenty years decides to put a valuation on the goodwill of his business and carry same as an asset on his ledger, the entry being to charge goodwill and credit surplus. Another merchant five years later buys the entire business including the goodwill, and after making a careful inventory finds that the actual net resources exclusive of goodwill, amount to $5,000.00 less than the sum he paid for it.

Discuss the subject of goodwill in respect to the above cases, and state the correct manner of dealing with same.

(6) Describe the use and operation of a Clearing House.

(7) What is meant by the term "Hire Agreement"? Is there any difference between a "Hire Agreement" and a "Hire and Purchase Agreement"?

(8) Differentiate between consignments, adventures, and joint accounts. How should consignments received, to be realized for and on behalf of
another, be best treated? How should the manager treat joint transactions in his books?

(9) Into how many classes are the expenses of a manufacturing establishment usually divided? Name 3 sub-classifications of each class of expenditures.

(10) What are the distinguishing features of a
   Mortgage Bond
   Collateral Trust Bond
   Income Bonds

(11) Describe the usual method of procedure in determining the net profit or loss of a business the books being kept by:
   (a) Single entry.
   (b) Double entry.

(12) What general principles should be observed in differentiating between capital and revenue expenditure?

(13) What differences in books and accounts would exist between a partnership and an incorporated company carrying on a similar business?

(14) Rule a form of cash book suitable for a charitable institution.

(15) What is meant by the term "depreciation"? Give three examples of its application.

ANSWERS:

(1) The arrears of dividends should not appear among the liabilities of the balance sheet. A corporation's liability for dividends on preferred cumulative stock is contingent on their being earned, but not against the assets of the company. It is, however, advisable that the attention be drawn by a foot note in the balance sheet. This procedure is adhered to in order to protect prospective common stock purchasers, who, by a suppression of such facts, may find themselves at a disadvantage.

(2) By opening an account merchandise or merchandise inventory and debiting to this account all goods on hand. Theoretically, this practice is incorrect, for as Professor Sprague states in his "Philosophy of Accounts":

An Account which needs to be made over is one which ought to have been made differently at first.

If we add the inventory to the credit side of what we call "Merchandise Account" we are mixing different elements into one mass, and have to rearrange things to get at the result.

The modern practice is to separate the merchandise account into three: Merchandise (inventory), sales, and purchases.

The arrangement would be to debit the merchandise (inventory) account for balance of merchandise on hand at the beginning of the period. Purchases made and returns by us would be respectively debited or credited to this section (Purchase Acc't.) Sales made and returns to us would be respectively credited or debited to the Sales Account. The purchase account would then be closed into the merchandise (inventory) account, leaving only two accounts, merchandise (inventory) and sales. By subtracting from the debit side of the merchandise account the
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inventory on hand we arrive at the cost of goods sold. This merchandise account we then close by journal entry Sales Mdse. The debit side of the sales account contains then the actual net cost of goods sold, while the credit side contains net proceeds of sales, the difference representing the profit made. (Advocated by Prof. Sprague.)

(3) In the first place we must distinguish between valuing an inventory for the purpose of finding its value as an asset, and the valuing of it, for the purpose of showing profits made or loss sustained.

It is wrong in principle to value it at market price as it interferes with the correct showing of the profit and loss account. If we take the inventory for any reason, not for the purpose of rendering a correct profit and loss account, we are at liberty to use either form, cost or market value, but when we take inventory for the purpose of ascertaining the cost of sales, for the purpose of showing a correct profit and loss account, we must figure it at cost price only.

(4)

(a) Real Estate
   Interest payable
   To Notes Payable
   (with proper and sufficient explanation)

(b) Cash
   To Buildings
   Fixtures
   Merchandise (sales)
   (with proper and sufficient explanation)

(c) Increase in valuation should not be taken into consideration at all. Sometimes, however, the increase is of a permanent nature, and not desiring to have a secret reserve it is shown. In such case the entry should be:

   Real Estate
   To Reserve (of some nature)

   It is not advisable to credit it to the surplus account.

(d) Notes Receivable Discounted
   Customer
   To Cash
   (with proper explanation)
   or
   Customer
   To Cash

   When contingent liabilities are recorded and shown on the books the former method is used with advantage.

(5) The absurdity of the first instance is perhaps well illustrated in the case of Stewart v. Gladstone where the presiding Justice decided that the clause "all particulars that might be susceptible of valuation should be stated in the annual accounts" does not comprise goodwill. This intangible asset has only a value when the business is sold.

With regard to the other case, where the merchant overpaid for the
goodwill, the sum which he overpaid is to be written off. This may be done in one sum or distributed for a period of say, two or three years.

(6) The Clearing House, through its connection with other clearing houses, unites all the banks of the city and of the country into one bank. By means of the clearing houses and the check system the community is enabled to transact the bulk of its business without the risk or annoyance of the handling of actual money to any great extent. If we consider that in New York City alone the daily clearings of checks will approximately average over $150,000,000.00, we can readily perceive the advantages that the Clearing House affords. Formerly each bank was obliged to settle with each other bank, this often required the carrying of large sums of money by messengers. Now the settlements of the debtor banks are made to the Clearing House, and the Clearing House settles the credit balances. These settlements are now made in Clearing House gold certificates, gold coin and United States notes, in all of our large cities. In New York the payments are nearly all made in clearing house gold certificates, representing gold coin on deposit in the Clearing House vaults.

In addition to this convenience the Clearing House fills another very important place. By the frequent bringing together of the officers of the banks important financial questions are discussed to the benefit of all.

By their systems of records of all clearings, by the recording of sworn statements of the various banks, and by their powers to examine any bank which is a member of the association, a very close watch is kept upon the condition of each bank. In various financial crises the clearing houses have proved themselves of inestimable value. The expenses of running the clearing houses are generally paid from a fund raised by an assessment upon the banks which varies in different cities. In New York all members pay an entrance fee in proportion to their capital, the sum ranging from $5,000.00 to $7,500.00. In Philadelphia each bank, upon becoming a member, is obliged to deposit securities with the Clearing House in proportion to its capital, as collateral for its settlements. Each bank is characterized by a number, known as the clearing house number, which number is used on all checks that the bank presents for clearing, as well as on all clearing house blanks.

The books of record, kept by clearing houses in general, are: Ledgers, statement books, and registers. In the ledgers are kept accounts with each bank to which are posted daily all the amounts entered on the proof sheet. Statement books are divided into weekly and quarterly and are made up from the statements of each bank. In the registers is kept a record of the balances paid to or received from the banks in settlement of daily exchanges, and also the kind of money. There are also, of course, record books of the several committees, and the few necessary books of the clearing house. (Based on Barrett's Modern Banking Methods.)

(7) While the two terms are synonymous there is a distinction with regard to the legal part of the different agreements.

Dicksee makes no distinction whatever between a "Hire" or "Hire
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and Purchase Agreement”. In fact throughout all of his books he calls it “Hire and Purchase Agreement” and defines it as follows:

“The general nature of a contract of this description is that, if the ‘tenant’ (the hirer) makes the necessary periodical payments regularly, the manufacturer agrees to hand over the ownership of the articles in question to him, at the end of the prescribed term upon the payment of a further nominal sum.”

As a matter of account this definition is very correct and no further distinction is necessary. From a legal point of view, however, there is quite a difference. Dawson in his “Accountant’s Compendium,” differentiates between the two terms as follows:

“Under a hiring agreement no property in the goods, so hired, passes to the hirer, but under a ‘Hire and Purchase Agreement’ a distinction must be drawn between those which involve an agreement to buy, and those which do not. There is an agreement to buy, if the hirer is bound to pay the whole of the agreed sums for hire, whether he returns the subject-matter before the expiration of the agreed period or not.”

(8) There are two classes of consignments, namely: Inward or outward. Consignments inward may be for the merchant’s own account, or they may be on the account of another. In the former the merchant is the principal; in the latter he acts as agent. Consignments outward are chiefly on account of the consignor.

Consignments for a merchant’s own account are more properly termed Adventures. Similarly, transactions in which the merchant is a co-partner with others, are termed Joint Accounts or Ventures.

Consignments received to be realized for and on behalf of another are best treated as follows:

On receipt of the goods no entry is made in the books of account, with the exception of a memorandum. All charges, however, paid on the consignments are entered to the debit of a “General Consignment Account,” to which account would also be charged advances made to the consignor. All sales are to be credited to a “Consignment Sales Account.” When the consignee renders an account sales, the “Consignment Sales Account” is charged for outlay and net proceeds, while the “General Consignment Account” is credited for charges and advances transferred, the net proceeds being credited to the “Consignor’s Account.” Joint transactions are best treated by the manager in one of the two ways:

(a) To open an account under the heading “Joint Adventure to…….”

and to charge it with total cost, including all incidentals. This account to be credited with the gross amount realized; the balance, if any, to be transferred to “Profit and Loss Account” and the partner’s personal account for the respective shares of loss or gain.

(b) To open an “Adventure Account” for the manager’s share of cost, and for partner’s share of costs, and to divide gross proceeds after realization in the same manner. (Advocated by G. E. Stuart Whatley.)
O. P. A. Question Department.

(9) The expenses of a manufacturing establishment are usually divided into three classes, viz.:

"Manufacturing Expenses," "Selling Expenses," and "General Expenses" or "General and Administrative Expenses."

Five sub-classifications of manufacturing expenses are:
(a) Maintenance of real estate, or rent of factory.
(b) Power, light, and heat.
(c) Depreciation.
(d) Repairs.
(e) Labor.

Five sub-classifications for selling expenses are:
(a) Advertising.
(b) Commissions.
(c) Salesmen's salaries.
(d) Shipping department expenses.
(e) Freight outward.

Five sub-classifications of general and administrative expenses are:
(a) Officer's salaries.
(b) Office salaries.
(c) Office supplies.
(d) General postage.
(e) Telephone and telegrams.

(10) A mortgage bond is one the payment of which is secured by a mortgage on part or all of the property of the corporation. This deed of trust usually authorizes the trustees, in case of default in interest or principal of the secured bonds, to take possession of the property and either manage it or sell it, as may be provided, for the benefit of stockholders. It must be under seal and generally contains the following important provisions: Conditions of redemption, the method of transfer and exchange when payable to bearer, also whether or not a sinking fund is required. Mortgage bonds may be first, second, third, etc., depending on the security. If the mortgage bond is one secured on property upon which there is no other similar obligation it is a first mortgage bond, otherwise it is a second or third respectively.

The distinguishing features of a collateral trust bond is that it is secured by collateral—usually stocks and bonds of other corporations owned by the issuing corporation. These collateral securities are deposited with a trustee under an agreement setting forth all the conditions of the trust.

An income bond is a lien on the net income, but, unless profits are earned its interest is not an obligation of the company. Income bonds may be either cumulative or non-cumulative as to interest. The principal may be secured or unsecured.

(11) The usual method of procedure in determining the net profit or loss of a business when the books have been kept by single entry is to compare the state of affairs of one period with that of another period.
The different results shown will disclose a loss or a gain. This is known as the Resource and Liability method. Lisle in his "Accounting in Theory and Practice" gives the following rule for determining profit or loss in a set kept by single entry, provided complete capital account have been kept:

"Prepare a statement of affairs as at the close of the period, and so ascertain the capital at the end of the period. Prepare a capital account, or capital accounts, if the business is a partnership, for the period. From the capital brought out by the statement of affairs deduct the capital shown by the capital account or the capital accounts prepared. The difference is the net profit for the period. If the capital shown by the capital accounts is greater than the capital shown by the statement of affairs, the result of the period's transactions is a loss."

Where the books have been kept by double entry the net profit or loss is determined by what is known as the Profit and Loss Account method.

The gross profit or loss is determined first, by the trading account. This account is debited for costs and credited for returns and inventory the difference shows gross profit or gross loss. The balance so ascertained is then transferred to the profit and loss account. This profit and loss account is, in addition to this balance, also charged with all debit balances of the nominal accounts, and is credited with all credit balances of the nominal accounts. Depreciations and reserves are also charged against this account the final balance, if any, will show a loss or a gain; a loss if a debit balance, a gain if a credit balance.

(12) By the term "Capital Expenditure" is meant, expenses incurred for the sake of acquiring, or completing the plant and equipment of an enterprise, with a view of placing it on a revenue-earning basis. Whereas by the term "Revenue Expenditure" is meant all those expenses incurred in connection with the earning of revenue.

In differentiating between capital and revenue expenditure we must bear in mind what the outlay is for. If it is such that will improve the equipment, and thus increase its capacity to earn revenue, it should be charged as capital expenditure, otherwise as revenue.

(13) With regard to the books the following additional ones would be used by a corporation:

(a) Minute book.
(b) Subscription book.
(c) Installment book.
(d) Installment scrip book  
(e) Stock certificate book.
(/) Stock ledger.
(g) Dividend book.

With regard to accounts the following additional ones are some of the accounts that would appear on the ledger of an incorporated company, which would not be found in a ledger of a partnership firm: Capital stock, subscription, surplus, bond account, treasury stock, etc.
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<th>Date</th>
<th>Particulars</th>
<th>Voucher No.</th>
<th>Folio</th>
<th>Ledger Accounts</th>
<th>Subscription</th>
<th>Donations</th>
<th>Legacies</th>
<th>Sundries</th>
<th>Date</th>
<th>Particulars</th>
<th>Voucher No.</th>
<th>Folio</th>
<th>Ledger Accounts</th>
<th>Administration Expenses</th>
<th>Relief</th>
<th>Sundries</th>
</tr>
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(15) By the term “Depreciation” is meant that:

“It is necessary, in addition to charging actual expenditure upon repairs and replacements to revenue, to charge against the revenue account of each year a further sum, with a view to (as far as possible) averaging the expenditure on revenue account over a term of years and that provision which it is so necessary to charge is usually called by the name ‘Depreciation’.” (Dicksee)

There are several methods of apportioning these charges, viz:

(a) An equal proportion of the cost may be written off each year; that is where we know the life of the asset and provided there is no residual value at the expiration of its life.

(b) By the second method the asset may be written down, from year to year, by deducting depreciation at a fixed rate per cent. upon the balance standing to the debit of the account at the commencement of the year.

(c) By writing off to revenue each year an equal sum sufficient at the expiration of the life of the asset to reduce the asset to zero. This is called the annuity system.

AUDITING.

QUESTIONS:

(1) State the general principles governing the discrimination between what constitutes proper charges against capital and what constitutes proper charges against revenue.

(2) Is there any reason why the goodwill carried as an asset on the books of a prosperous and growing manufacturing concern should be depreciated, amortized or otherwise written off, and if so what would be the effect of such depreciation, amortization or writing off?

(3) If a company, duly organized, acquires several plants that are found to be in a “run down” condition and to require extensive outlay for repairs and renewals to bring them to the required state of efficiency, should such outlay be charged against capital or against revenue? Give reasons.

(4) What do you understand by the term “Secret or Hidden Reserves”? Mention four (4) bona-fide uses of a secret reserve and state your opinion as to the propriety or otherwise of the creation of such “reserves,” giving reasons.

(5) In a case where the preferred shares of a company are issued under a provision that the annual dividends to which they shall be entitled shall be “cumulative,” would you consider it necessary to show any arrears of dividend as a liability upon the balance sheet, or how would you deal with it?

(6) In the preparation of a manufacturing and trading account and a balance sheet, state on what basis the following assets should be valued:

(a) Raw materials.

(b) Product in process of manufacture.
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(c) Manufactured product.
(d) Bills receivable.
(e) Accounts receivable.

Give fully your reasons.

(7) Give a brief description of the books of a corporation that should be examined and inspected by the auditor, and state the reasons why such examination or inspection should be made.

(8) In making an examination for an intending purchaser of a business, what are the principal matters that should be looked into?

(9) State the different kinds of audits, and describe them.

(10) How would you verify bills discounted for customers in auditing the accounts of a bank?

(a) Those in hand at the date of the balance sheet.
(b) Those re-discounted.

(11) What steps would you take to satisfy yourself that the book debts of a trading company were fairly stated in the balance sheet submitted to you for audit?

(12) What do you consider the proper way to handle cash in accounts? What advantages are there, if any, in banking each day the exact receipts of the previous day?

How would you verify the correctness of a cash book, and insure the entry of all cash received?

(13) Give at least two (a) examples of contingent liabilities, and state how they should be treated in the books, and on the balance sheet.

(14) What duties and responsibilities has an auditor in connection with inventories of goods on hand?

(15) How should a leasehold be treated in the accounts of a company and how should it be shown on the balance sheet?

ANSWERS:

(1) If the expenditure incurred, has been of such a nature as to improve the earning capacity, in such case the charge should be against capital.

If on the other hand it was of such nature as to merely renew the wasting asset, to bring it back to that condition that it was at the beginning of a given period, it should be charged against revenue.

(2) There is no definite rule by which one can be guided whether to amortize and depreciate goodwill or not. Opinions differ as to the method to pursue. We have, however, an English decision in the case of WILMER v. McNAMARA 1895, where the Court has decided that even where the goodwill has actually declined in value it is not necessary to charge the shrinkage against profits.

The basis of this decision was that goodwill is "Fixed" capital, and there is no doubt that goodwill is the most permanent of all the other assets. The general custom, however, among English as well as American accountants is to write down the goodwill annually, especially so in pros-
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Perous times. It is quite true that by so doing a secret reserve is created the propriety or impropriety of which is entirely a different subject, and is considered in connection with some other question.

(3) The outlays so incurred should be charged against capital and not against revenue. The price paid for the plants was exactly that at which the assets were valued, the "run down" condition having been taken into consideration. For, if the purchasing price exceeded the actual valuation, it was not for the assets proper, but most likely for the goodwill. This expenditure was for the purpose of improving the plants, and thus increase their earning capacity, therefore it is a proper charge against capital.

(4) By the term "Secret or Hidden Reserves" is meant a reserve created by making excessive charges against revenue which are not justified, and which reserve does not appear on the books of the concern. Such reserve either undervalues the assets or inflates the liabilities. The bona fide uses of "Hidden Reserves" can be divided as follows:

(a) To equalize apparent profits and dividends.
(b) To extend the scope of the business.
(c) To consolidate the undertaking.
(d) To provide against unforeseen losses.

One of the chief arguments against the creation of "Secret Reserves" is that they rob the present generation of stockholders at the expense of posterity. A more powerful argument is that they open a loophole for fraud.

It is very difficult to give an exact opinion as to the propriety or otherwise of "Hidden Reserves". Considering the many abuses to which such a reserve is liable, and to which it is usually subject, one would think it improper, because unless the utmost confidence can be placed in the managers, there is great risk.

Dicksee well states: This most debatable subject is approached with considerable diffidence. Very much can be (and has been) said on both sides of the question, making it a most difficult thing to say what is really the correct course to adopt in any particular case; and, if the question be complicated, even where a particular case is judged upon its own merits, how much more difficult is it to lay down any general rules of universal application."

(5) Arrears in dividends in the case of cumulative preferred stock need not be shown among the liabilities of a balance sheet. Such arrears are only claims against profits earned, but not against the assets of a corporation. It is, however, advisable to append a foot note, stating this fact so that prospective purchasers of common stock should not be misled.

(6)

(a) Cost price, provided market value is not lower than the cost price; otherwise market price.
(b) At cost of production.
(c) Cost price; if market value is lower, prevailing market value.

The reason is that as these values are for the purpose of showing cor-
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rectly the profit or loss for the period cost value, or market value, if the latter is lower should be figured.

(d and e) They should be divided into good, doubtful and bad, so that each asset is carried only at that figure which it will reasonably realize.

(7) In addition to examining and verifying the ordinary books the auditor is to examine and inspect the following record books:

(a) The minute book. In this book he will find the by-laws by which the corporation is governed and also all resolutions adopted and whether they have been properly carried out.

(b) The subscription book, which will disclose how much stock was subscribed for and by whom.

(c and d) The stock ledger and transfer book. They will show the holding of each stockholder, or any of his transfers, and subsequent holders. By this means he will be in a position to verify whether the stock issued has been paid for, and in what cash or property, and furthermore whether it was in accordance with the wishes of the directors and stockholders.

(8) To see whether the assets or profits have not been fraudulently overstated, making the accounts unduly favorable.

To see whether the liabilities or losses have not been undervalued, which would also result that the accounts would appear unduly favorable.

In general to see whether the business of the vendor is worth purchasing, and if it is worth the price they ask for it.

(9) The principal kinds of audits are as follows:

(a) The Periodical Audit. This kind of audit covers a statistical period and that is why it is called "Periodical". Continuous Audits are the same as periodical ones, but they are taken up at shorter intervals.

(b) Completed Audits. By this is meant an audit begun after the trial balance has been completed.

There are, of course, investigations such as:

For the benefit of a prospective purchaser, endeavoring to find the exact value of the concern.

For the benefit of a retiring or incoming partner.

(10)

(a) By actual inspection.

(b) By tracing the transaction through, and becoming satisfied that the bank has received credit in respect of the bills re-discounted. It is also necessary to see that provision is made for contingent liabilities in respect of bills discounted and which are outstanding.

(11) Compare the list of book accounts with the corresponding ledger balances, noting any irregularities of payment that may suggest disputes. Consult the managers of the concern with regard to accounts in doubt. In some cases it is advisable to select a few accounts, or take them at
random and make up a statement, which is to be forwarded to the cus-
tomer asking him to O. K. the same and return to the auditor.

(12) The proper way to handle cash accounts is to have all cash re-
cceipts, of whatever nature, deposited in the bank and make all payments
by check only. Petty cash expenditures to be handled by the "imprest"
system. The advantages derived from banking each day are:
(a) That it facilitates a speedy audit, and
(b) Enables to trace receipts with the deposits.

To verify the correctness of a cash book, and insure the entry of all
cash received, one should check the entries of the cash book with the
most independent source that the auditor can find available—say, counter-
foils of receipt books, bank pass books, etc.

(13) Two examples of contingent liabilities are:
(a) Notes receivable discounted.
(b) Accommodation instruments.

Properly they should appear in the books of accounts and also on the
balance sheet. In some cases they are omitted from the books of ac-
count, but included in the balance sheet by a foot note.

(14) He has to get a certificate from some one in authority as to the
correctness of the inventory and on what basis it was valued. To see
that the same is cost value, or where the market value is lower, it is the
market value.

(15) A leasehold may be regarded as the purchase money paid for an
annuity terminable at some definite time. It is then advisable, especially
in short-term leases, to charge a proportionate part of the term against
revenue each year. Leases for a long term of years should be treated
under sinking fund plan. In the balance sheet the original cost, less the
depreciation should be shown.

COMMERCIAL LAW.

QUESTIONS:

(1) What is the liability of the parties to a certified check? Give
reasons for your answer.
(a) What is the effect of an alteration of a negotiable instrument?
(b) What is the object of passing bankrupt laws?
(c) At the first meeting of creditors in the bankruptcy of Smith, all
of the creditors, who had proved their claims, voted for Jones, as
trustee. To this the bankrupt Smith objected, on the ground that
Jones was not competent, and furthermore being his personal
enemy, would act maliciously towards him. The referee, there-
upon, disapproved of Jones and appointed another Trustee. Can a
motion be made to set aside this appointment? On what grounds?
Explain fully.

(3) State the essential feature of a partnership. Must each partner
have an interest in both profits and losses?
C. P. A. Question Department.

(4)

(a) Define a negotiable promissory note.
(b) What is the liability of a general endorser on a promissory note?
(c) Define a corporation and name the different kinds.
(d) Define a contract and state what contracts must be in writing?
(e) A owes B $500.00 and offers his note for the amount for four months. B demands security and C, at his request, signs the following paper:

"I agree to become responsible as surety for the payment of A's note for Five Hundred Dollars ($500.00) dated this day.

When the note becomes due, A pays $100.00 on account and gives B a new note for $400.00 at four months. This last note is not paid, and B sues C on the above contract. Can C make any defense, and if so, what?

(f) Is the following instrument a negotiable promissory note?

Chicago, April 8, 1908.

Thirty days after William H. Taft is elected President of the United States, I promise to pay to the order of William J. Byran Five Hundred Dollars, at the First National Bank of Chicago, for value received.

(Signed) Joseph G. Cannon.

Give reasons for your answer.

(g) Must the stock of an Illinois corporation be paid in wholly or in part before certificate of complete organization is issued, and, if so, in what may such payment be made?

(h) What is the statute of limitations and on what policy is it founded? Explain fully and mention three ways that will prevent the statute from running against an ordinary debt.

(i) State the procedure necessary in New York State for dissolving a corporation.

(j) Goods are delivered to a buyer "on approval" or "on sale or return". When does the property in such goods pass to the buyer?

(k) Give a brief account and show the connection between:

Law merchant, common law, statute law.

(l) What is usury?

Give the legal rates of interest in Florida, and state the result of an agreement to pay more than the legal rate.

(m) Define partnership. How many kinds of partnership are there, and wherein do they differ from one another?

ANSWERS:

(1) If the holder secures the certification the drawer is discharged from any liability, the bank becomes then the principal and only debtor. The check becomes the check of the bank and is good as long as the bank is solvent. This, however, is not the result if the drawer himself procures the certification before the delivery of the check. In such case he, the drawer, is not released from further liability.
The Journal of Accountancy.

An alteration in a negotiable instrument without authority after it had been signed, destroys its validity. That is true, however, only in case of a material alteration.

(2) The object of passing bankruptcy laws is to protect creditors, and also to help legitimate bankrupt firms to begin business anew, if they prove that the failure was not caused fraudulently.

A motion can be made to set aside such appointment. Creditors are the only individuals who have a right and vote in the selection of a trustee. Only if they fail to elect one, the referee can exercise the right to appointment. A trustee may be hostile to the bankrupt, yet this does not disqualify him.

(3) The essential feature of a partnership is the sharing of profits. Of course, the intention of the parties at the formation is to be taken into consideration. Not necessarily, but generally this is the case.

(4)
(a) A negotiable promissory note is an unconditional written promise made by one or more persons to pay to another person or to his order or bearer a sum certain in money at a specified time.
(b) His liability is that he will honor the instrument if the maker does not, provided it is duly presented for payment and upon refusal is duly protested.

(5) A corporation is an association of natural persons, or of artificial persons, or of both together, authorized by law to act as a unit under a corporate name, for the accomplishment of certain definite and prescribed purposes.

In general there are two kinds of corporations, viz.:
(a) Public, and
(b) Private.

There are, however, a good many subdivisions such as: Transportation corporations, stock and non-stock corporations, moneyed corporations, etc.

(6) A contract is an agreement between two or more persons, competent to act, founded on a sufficient and legal consideration, to do or not to do a certain thing.

The following contracts must be in writing:
(a) If the contract by its terms is not to be performed within one year from the making thereof.
(b) Contracts to answer for the debt of another person.
(c) Contracts containing a promise in consideration of marriage.
(d) Contracts promising the payment of a debt already discharged in bankruptcy.

(7) His defence would be a change in the contract of guaranty, without his knowledge or authorization.

(8) No; it is not. The most important element of a negotiable instrument is that the time is determinable. In this case the time is uncertain as William H. Taft may never be elected.

(9) One-half must actually be paid in. If in property the same shall
be appraised by the commissioners, who have to report the fair cash value thereof.

(10) By the term "Statute of Limitations" is meant that the law will refuse to enforce any action, not merged in a judgment or discharged by consent within a given time, by reason of the lapse of a certain time, which varies in the different states. Like the statute of frauds it has for its object the discouraging of litigation and the suppression of perjury.

The following acts may prevent the statute from running against an ordinary debt:

(a) A new agreement, which in some of the states must be in writing.
(b) By a payment on account of principal.
(c) By paying interest.

(11) A special meeting of the board of directors must be called on three days' notice, and a majority of the whole board must adopt a resolution recommending dissolution. The directors then call a meeting of the stockholders which must be not less than 30 nor more than 60 days after their meeting. Notice of this meeting must also be published at least once a week for three weeks successively next preceding the time appointed for holding the meeting. In order to secure dissolution an approving vote of two-thirds of the outstanding stock must be secured. After this vote is obtained certain forms of dissolution must be prepared and filed with the Secretary of State.

When these papers are accepted by the Secretary of State he issues, in duplicate, a certificate of their filing, one copy of which must be published once a week for two weeks, in one or more newspapers. The dissolution of the corporation is then complete. The directors act as trustees for winding up the business.

(12)  

(a) When the buyer signifies his approval or acceptance to the seller, or does any act adopting the transaction.
(b) If he neither signifies his approval nor acceptance to the seller, but retains the goods without giving notice of rejection, then if a time has been fixed for the return of the goods, on the expiration of the time so fixed, or, if no time has been fixed, then on the expiration of a reasonable time.

(13) The common law is the oldest form of our law. It was derived primarily from the English law, and established here by the early settlers. It is made up of the rules and customs which were in use from time immemorial and came to be recognized as laws. Most of the common law is now embodied in court decisions.

Laws enacted by Congress or the Legislature are known as statute laws. In some instances these statutes change and modify the common law. This is often the case when the condition of the nation or the progress of the community requires it.

The law merchant, known also as commercial law is a branch of the civil law, and includes the law regulating the rights and relations of
The Journal of Accountancy.

persons engaged in trade or commerce, as the law of contracts or agency. It is a more modern outgrow.

(14) The taking of a higher rate of interest than that allowed by the statute of a particular state is called usury. The legal rate of interest in the State of Florida is 8%, the maximum rate is 10% (The penalty for usury is forfeiture of all interest.)

(15) A partnership is an association of two or more persons who have agreed to combine their labor, property, or skill, for the purpose of engaging in business and sharing profits and losses between them.

General and limited.

A limited partnership differs from a general partnership in that the liability of some of the partners is limited.

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Attendance and Invitation:
George Wilkinson, Chairman, New York, New Jersey, and Pennsylvania
William M. Lybrand, Pennsylvania
Edward L. Suffer, New York and New Jersey

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