1917

Uniform accounting: a tentative proposal submitted by the Federal Reserve Board

United States. Federal Reserve Board

UNIFORM ACCOUNTING

A TENTATIVE PROPOSAL SUBMITTED
BY THE FEDERAL RESERVE BOARD
WASHINGTON

FOR THE CONSIDERATION OF

BANKS, BANKERS, AND BANKING ASSOCIATIONS;
MERCHANTS, MANUFACTURERS, AND ASSOCIATIONS
OF MANUFACTURERS; AUDITORS, ACCOUNTANTS,
AND ASSOCIATIONS OF ACCOUNTANTS

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PREFACE.

The following tentative proposal for a uniform system of accounting to be adopted by manufacturing and merchandising concerns appeared in the April (1917) number of the Federal Reserve Bulletin, and is now reprinted for more general distribution.

It is recognized that banks and bankers have a very real interest in the subject, because they are constantly passing upon credits based upon statements made by manufacturers or merchants.

It is quite as much of vital interest to merchants and manufacturers, because they realize that their credit sometimes suffers by reason of losses incurred by bankers through credits given to merchants and manufacturers whose statements do not correctly reflect true conditions.

Lastly, it is of immense importance to auditors and accountants, because they have a professional as well as a practical interest in having the character of their professional work thoroughly formulated and standardized. Losses incurred by bankers by reason of credits given to merchants or manufacturers, if such credits were given because the statements were either actually false or misleading in their nature, tend to discredit accountancy as a profession and to shake the confidence of bankers in the real value of any statements.

Hence it is that the Federal Reserve Board puts out this tentative proposal with the hope of encouraging the fullest criticism and discussion.

90910°—17

UNIFORM ACCOUNTING.

Introduction.

Through the courtesy of the Federal Trade Commission the Federal Reserve Board has been enabled to take advantage of a large amount of information and data which the Trade Commission acquired in connection with the study of the statements made by merchants, manufacturers, etc., as showing the condition of their business. Because this matter was clearly of importance to banks and bankers, and especially to the Federal Reserve Banks which might be asked to rediscount commercial paper based on borrowers' statements, the Federal Reserve Board has taken an active interest in the consideration of the suggestions which have developed as a result of the Trade Commission's investigation, and now submits in the form of a tentative statement certain proposals in regard to suggested standard forms of statements for merchants and manufacturers.

The problem naturally subdivides itself into two parts:

(1) The improvement in standardization of the forms of statements.

(2) The adoption of methods which will insure greater care in compiling the statements and the proper verification thereof.

In recent years bankers, through their associations and otherwise, have made rapid progress in the direction of more uniform and complete forms of statements. Much has also been accomplished in the improvement of the quality of the statements rendered and in securing statements which do not depend for their accuracy on the borrower's statement alone but are verified to a greater or less extent by independent scrutiny and audit. The advantage of a statement certified by trustworthy public accountants over an unverified statement is evident. At the present time, however, there is no uniformity as to the extent of verification in the case of statements put forward as having been verified.

The Federal Trade Commission in the course of its investigation of business conditions has been strongly impressed with the lack of uniformity and has enlisted the aid of the American Institute of Accountants, with a view to remedying the condition. It has found that verified statements may be divided broadly into—

(*a*) Those in which the certificate is based on an examination of the books without personal supervision of inventories and independent appraisal of all assets with the aid of technical appraisers; and

(*b*) Statements verified with the personal supervision of inventories and independent appraisal of all assets.

The value of the two classes of audits and their relation to each other depends to a great extent upon the character and magnitude of the business involved.

In some cases method (*b*) has advantages over method (*a*). In other cases, notably those of large companies in which personal supervision of inventories is arduous and perhaps impracticable and the value of an independent appraisal of assets is liable to be considerably exaggerated, the reverse may be true. That is to say, a verification based upon the books themselves without an appraisal may be and often is the safer method of procedure. It is highly desirable gradually to educate the business world to the great importance of a complete form of audit statement, although any plan for immediate adoption intended to produce practical results must recognize that under present practice probably more than 90 per cent of the statements certified by public accountants are what are called balance-sheet audits, such as are described in paragraph (*a*) above referred to.

As a first step toward the standardization of balance-sheet audits and to insure greater care in compiling and verifying statements the Federal Trade Commission requested the American Institute of Accountants to prepare a memorandum on balance-sheet audits. This memorandum was duly prepared and approved by the council of the institute representing accountants in all sections of the country.

After approval by the Federal Trade Commission the memorandum was placed before the Federal Reserve Board for consideration. The Federal Reserve Board, after conferences with representatives of the Federal Trade Commission and the American Institute of Accountants, and a careful consideration of the memorandum in question, has accepted the memorandum, given it a provisional or tentative indorsement, and submitted it to the banks, bankers, and banking associations throughout the country for their consideration and criticism.

The recommendations in the memorandum apply primarily to what are known as balance-sheet audits. This is an initial step which may easily be succeeded by future developments tending still further to establish uniformity and covering more fully the field of financial statements.

General Instructions for a Balance-sheet Audit of a Manufacturing or a Merchandising Concern.

The scope of a balance-sheet audit for a fiscal year or other operating period of an industrial or mercantile corporation or firm comprises a verification of the assets and liabilities, a general examination of the profit and loss account, and, incidental thereto, an examination of the essential features of the accounting.

Trial balances of the general ledger, both at the beginning and end of the period under review, should be prepared in comparative form and checked with the ledger. The items in the trial balances should be traced into the balance sheets before the assets and liabilities are verified, to prove, among other things, that no "contra" asset or liability has been omitted from the accounts, that the assets and liabilities have been grouped in the same manner at the beginning and at the end of the period, and also that the balance sheets are in accordance with the books. The disposition of any general ledger assets and liabilities that may have been scrapped, sold, written off, or liquidated during the period under review should be traced and noted in the working papers. Furthermore, a general scrutiny of the general ledger should be made to see that the accounts, if any, that have been opened and closed during the year have no bearing on the company's financial position at the close of the fiscal period.

The auditor should obtain a copy each of the balance sheets at the beginning and the end of the period to be audited, and should make a comparison between them, so that a comprehensive view may be had by him of the changes in the figures during the period under review. A statement of the disposition of the profits should then be prepared from this comparative balance sheet as a further aid in impressing the meaning of the figures upon the mind of the auditor.

The verification of assets and liabilities for convenience will be considered in the order in which the items appear in the form of balance sheet attached hereto. This form of statement has been determined by the desire to meet as nearly as possible the requirements and practice of Federal Reserve Banks.

Specific Instructions and Suggestions Relating to the Separate Headings.

CASH.

The cash on hand preferably should be counted after banking hours on the last day of the fiscal period to be covered by the audit, and the amount thereof, together with the cash stated to be in the bank, reconciled with that shown by the cashbook. The cash, bills receivable, and investments must be examined on the same day, so as to make it impossible for a treasurer to make up a shortage in one asset by withdrawing negotiable funds temporarily from another.

In counting the cash on hand the auditor must see that all customers' checks produced to him as part of the cash balance have been duly entered in the cashbook prior to the close of the period and should note the dates and descriptions of such checks, and also the dates and descriptions of all advances made from cash and not recorded on the books. Advances to employees should be strictly investigated, and if any are secured by personal checks the auditor should see that the checks are certified by the bank on which they are drawn before the close of the audit.

Certificates must be obtained, as of the evening of the closing date, from the banks in which cash is deposited, by or mailed directly to, the auditor himself. The balances as shown by the certificates must be reconciled with those shown on either the cashbook, the checkbook stubs, or bank registers, taking into consideration outstanding checks.

In verifying the outstanding checks there is only one safe and satisfactory method of proving their accuracy, and that is to compare the credit side of the cashbook from the last day of the fiscal period backward, item by item, with the checks returned from the bank for such period as may be necessary to account for all current outstandings. Any old checks not yet cashed by banks should be made the subject of special inquiry. When this work is completed, a list of the outstanding checks so ascertained should be prepared, showing the dates of the checks and compared with the actual checks returned from the bank at a later date, and any not so returned should be specially investigated. Special care is necessary to see that no checks for cash purposes are drawn at the close of the period and entered in the next period.

Where the currency and bank transactions are kept together in the cashbook and the auditor does not count the cash until a date subsequent to the close of the fiscal year, he must, in addition to verifying the bank balances as of the close of the year, verify them as of the date of the count of cash. This is absolutely essential when it is considered that, although the cash on hand, which forms only part of the balance, at the date of the count is correct, it does not follow that the total cash is correct.

When receipts are shown in the cash books as being deposited in the bank on the last day of the fiscal period, but are included in the reconciliation statement on account of their not being paid into the bank until the next day, the auditor must obtain letters from the banks acknowledging such deposits.

The deposits shown in the pass books should be checked in detail for the last two or three days of the fiscal period from the books to prove that they were composed of bona fide checks, and that no check drawn by the company was deposited in a bank without being credited to the bank on which it was drawn prior to the close of the fiscal period.

So that the auditor may satisfy himself that deposits are promptly made in bank each day, and that the same checks are paid into bank as are received, it is advisable to call for a number of deposit slips and compare them with the receipts as shown by the cashbook for the days in which the deposits are made. To make such verification absolute the deposit slips should be obtained from the banks.

When the practice of a company is to pay all of its cash receipts into bank, they should be compared and reconciled with the total deposits, as shown by the bank books, and similarly the disbursements should be reconciled with the total checks drawn.

Outstanding checks not examined at a previous audit on account of not having been returned by the banks must be called for and traced into the cashbook at the beginning of the current audit.

NOTES RECEIVABLE.

A list of notes receivable outstanding at the end of the fiscal period should be prepared, showing the dates the notes are made, the customers' names, the date due, the amounts of the notes and the interest, if any, contained in the notes. If discounted, the name of the discounting bank should be noted and verification obtained from the bank.

The outstanding notes must be carefully examined with the notes-receivable book, and with the list prepared by or produced to the auditor, the due dates and the dates of making the notes being carefully checked, and when notes have been renewed the original dates should be recorded. When notes have been paid since the close of the fiscal year, the cash should be traced into the books of the company, and, when they are in the hands of attorneys or bankers for collection, certificates should be obtained from the depositaries.

When notes receivable are discounted by banks the company has a liability therefor which should appear on the balance sheet. Lists of discounted notes not matured at the date of the audit should be obtained from the banks as verification and their totals entered under 20a if the cash therefor is shown as an asset.

The value of collateral, if any, held for notes should be ascertained, as it frequently happens that the notes are worth no more than the collateral.

Notes due by officials and employees must always be stated separately from customers' notes, as must also notes received for other than trade transactions.

Notes due from affiliated concerns must not be included as customers' notes, even though received as a result of trading transactions. Affiliated companies' notes should be shown as a separate item of current assets or as other assets as the circumstances warrant. They may be fairly included in current assets if the debtor company has ample margin of quick assets over its liabilities, including such notes.

The term "quick assets" is used here in the sense in which it is used by Federal Reserve practice. "Current assets" is used to comprise these assets and other assets which, though current, are excluded in determining the eligibility of the paper for Federal Reserve purposes.

Optional.—The best verification of notes receivable is an acknowledgment by the party named in each note as the payor on the due date that the note is a bona fide obligation. Therefore if time permits, and the client does not object, it is advisable to obtain such written confirmation for each note. The auditor should personally mail the letters, inclosing stamped envelope for reply addressed direct to himself.

ACCOUNTS RECEIVABLE.

The bookkeepers of the accounts-receivable ledgers should be asked to draw off lists of the open balances at the end of the fiscal period, and distributions of the total columns should be shown on the lists according to the age of the accounts, e. g., not yet due, less than 30 days past due, more than 30 days past due. The accounts paid since the close of the fiscal period should be noted in the lists before taking up the matter of past-due accounts with the credit department, as payment is the best proof that an account was good at the date of the audit.

The totals of the lists of outstanding accounts should agree with the controlling account in the general ledger if separate ledgers are kept. When credit balances appear on customers' accounts they should be shown on the balance sheet as a separate item and not deducted from the total of debit balances; and debit balances on the accounts-payable ledgers should be treated in the same manner.

The lists must be footed and compared in detail with the customers' accounts in the ledgers.

The composition of outstanding balances should always be examined, as it frequently happens that while a customer may be making regular payments on his account, old items are being carried forward which have been in dispute for a considerable period of time. Such items and accounts which are past due should be taken up with the credit department or some responsible officer, and the correspondence with the customers examined, so that the auditor may form an opinion of the worth of the accounts and satisfy himself that the reserve for bad and doubtful accounts set up by the company is sufficient.

Trade discounts (and also so-called cash discounts, if exceeding 1 per cent) and freights allowed by the company should be inquired into, and if they have been included in the accounts receivable a reserve therefor should be set up in the balance sheet. Also inquiries should be made regarding customers' claims for reductions in prices and for rebates and allowances on account of defective materials, so that it may be seen that a sufficient reserve has been established therefor.

Inquiry must be made as to whether any of the accounts receivable have been hypothecated or assigned, and the sum total of accounts so listed entered under 20b.

The auditor should satisfy himself that the bad debts written off have been duly authorized by responsible officials.

Accounts due from directors, officers, and employees must be stated in the balance sheet separately and not included as trade accounts. This applies also to deposits as security, guaranties, and other extraordinary items not connected with sales.

Accounts due from affiliated concerns must not be included as customers' accounts, even though arising as a result of trading transactions. Affiliated companies' accounts

90910°—17—2

should be shown as a separate item of "current assets" or as "other assets," as the circumstances warrant. They may be fairly included as "current assets" if the debtor company has ample margin of quick assets over its liabilities, including such accounts.

Optional.—The best verification of an open balance is a confirmation by the customer; therefore, if time permits and the client does not object, it is advisable to circularize the customers. The auditor should personally see the circulars mailed after comparing them with the lists of outstanding accounts. The envelopes for replies sent with the circulars should be addressed direct to the auditor.

In large concerns the system of accounting is generally so arranged that it would be almost impossible for accounts to be paid and not correctly credited on the accounts-receivable ledgers, but in small concerns, with imperfect systems, such occurrences are quite possible, so much so, in fact, that it is generally admitted that the risk of errors and omissions decreases in direct proportion to an increase in bookkeeping.

SECURITIES.

Under this caption must be listed securities in which surplus funds of the company or firm have been temporarily invested and which are considered available as "quick assets," i. e., can be turned into money in time of need. Where stocks or bonds represent control or a material interest in other enterprises, the ownership of which carries more or less value to the holder outside of the return thereon, they should be considered as fixed assets.

A list of investments should be prepared showing—

- The dates of purchases.
- Descriptions of the investments.
- Par value of the investments.
- The denomination of the shares.
- The number of shares or bonds owned.
- The total capital stock of the various companies.
- The amounts paid for the investments.
- The interest and dividends received.
- The market values of the investments.
- The surplus or deficit shown by the balance sheets of the companies where no market quotations are available.
- If hypothecated, with whom and for what purpose.

This list must be compared with the ledger accounts concerned and the total of amounts paid according to the list must agree with the balance of the investment account or accounts.

The securities must be examined by the auditor in person or he must secure confirmation of their existence from those who hold them as collateral. Those in possession of the company must be counted and examined as soon as possible after the audit starts, and all of them must be submitted to him at one time. It is much more satisfactory to see the actual securities than to verify cash receipts and other evidences therefor after the audit has progressed some time.

Certificates out for transfer must be verified by correspondence.

Where the market values of securities are less than the book values, save where the variation is so small as to be trifling, a reserve for loss in value on the balance-sheet date must be set up.

Care must be taken to see that the certificates are made out in favor of the company, or that they are indorsed or accompanied by powers of attorney when they are in the names of individuals.

Coupons on bonds must be examined to see that they are intact subsequent to the latest interest payment date.

The investment schedule must show that the total interest and dividends receivable by the company have been duly accounted for; the income from the investments shown in the profit and loss account must be in accord with this schedule.

When market quotations can not be obtained for investments, the balance sheets of the companies in which investments are held must be examined so that the auditor may form an idea of their value.

In verifying purchases of stock exchange securities the brokers' advices must in all cases be examined in connection with the verification of the purchase price.

Investments in deeds and mortgages must be supported by both the mortgages and insurance policies, and, furthermore, it must be shown that all assessed taxes on the property have been duly paid, that the mortgages have been properly recorded, and that the insurance policies are correctly made out to the company.

If any of the securities have been hypothecated the fact and amount (book value) must be stated under 20d of the balance sheet.

INVENTORIES.

Under this caption must be included only stocks of goods owned and under control of the owner. Stocks are often hypothecated and if this is the case the fact should be stated on the balance sheet.

Inasmuch as the accuracy of the profit and loss account is absolutely dependent upon the accuracy of the inventories of merchandise at the beginning and end of the period under review, this part of the verification should receive special attention. When a balance-sheet audit is being made for the first time, the inventory at the beginning of the period should receive as much attention as that at the end, and the auditor should take every precaution to satisfy himself that both inventories were taken on the same basis.

An acceptable program of audit for inventories is as follows:

(1) Secure the original stock sheets if they are in existence and carefully test the typewritten copies with them and with tickets, cards, or other memoranda that show the original count.

(2) See that the sheets are certified to or initialed by the persons who took the stock, made the calculations and footings, and fixed the prices, and satisfy yourself that they are dependable and responsible persons. Obtain a clear and detailed statement in writing as to the method followed in taking stock and pricing it; also a certificate from a responsible head as to the accuracy of the inventory as a whole.

(3) A thorough test of the accuracy of the footings and extensions should be made, especially of all large items.

(4) The inventories should be compared with the stores ledger, work in progress ledgers and finished product records and stock records as to quantities, prices, and values, and any material discrepancy should be thoroughly traced.

(5) Where stock records are kept and no physical inventory is taken at the time of the audit, ascertain when the last physical inventory was taken and compare it with the book records. If no recent comparison is possible, select a few book items of importance and personally compare with the actual stock on hand.

(6) Where no stock records are kept, a physical inventory should be taken preferably under the general direction of the auditor. After the inventory is completed, he should apply the same tests to verify its accuracy as if the inventory had been taken before his arrival upon the scene.

(7) When the cost system of a company does not form a part of the financial accounting scheme there is always a chance that orders might be completed and billed, but not taken out of the work in progress records. Especially is this the case when reliance is placed on such records to the extent that a physical inventory is not taken at the end of the period to verify the information shown therein. In these cases the sales for the month preceding the close of the fiscal period should be carefully compared with the orders in progress as shown by the inventory, to see that nothing that has been shipped is included in the inventory in error. Cost systems which are not coordinated with the financial accounts are unreliable and frequently misleading. Special attention should be called to every case in which the cost system is not adequately checked by the results of the financial accounting.

(8) Ascertain that purchase invoices for all stock included in the inventory have been entered on the books. Look for postdated invoices and give special attention to goods in transit.

(9) See that nothing is included in the inventory which is not owned but is on consignment from others. If goods consigned to others are included, see that cost prices are placed thereon, less a proper allowance for loss, damage, or expenses of possible subsequent return. This does not include goods at branches, as the valuing of such stocks will be governed by the same principles as apply at the head office.

(10) Ascertain that nothing is included which has been sold and billed, and is simply awaiting shipment.

(11) If duties, freight, insurance, and other direct charges have been added, test them to ascertain that no error has been made. Duties and freight are legitimate additions to the cost price of goods, but no other items should be added except under unusual circumstances.

(12) As a check against obsolete or damaged stock being carried in the inventory at an excessive valuation, the detailed records for stores, supplies, work in progress, finished products, and purchased stock in trade, should be examined and a list prepared of inactive stock accounts, which should be discussed with the company's officials and satisfactory explanations obtained.

(13) The auditor should satisfy himself that inventories are stated at cost or market prices, whichever are the lower at the date of the balance sheet. No inventory must be passed which has been marked up to market prices and a profit assumed that is not and may never be realized. If the market is higher than cost, it is permissible to state that fact in a footnote on the balance sheet.

(14) It may be found that inventories are valued at the average prices of raw materials and supplies on hand at the end of the period. In such cases the averages should

be compared with the latest invoices in order to verify the fact that they are not in excess of the latest prices, and also with the trade papers, when market prices are used, to see that they are not in excess of market values.

(15) Make an independent inspection of the inventory sheets to determine whether or not the quantities are reasonable, and whether they accord in particular instances with the average consumption and average purchases over a fixed period. Abnormally large quantities of stock on hand may be the legitimate result of shrewd foresight in buying in a low market, but may, on the other hand, arise from serious errors in stock taking.

(16) Always attempt to check the totals by the "gross profit test" and compare the percentage of gross profit shown with that of previous years. In a business where the average gross profit remains fairly constant this test is a dependable one, because, if the rate of gross profit is apparently not maintained and the discrepancy can not be satisfactorily accounted for by a rise or fall in the cost of production or of the selling price, the difference will usually be due to errors in stock taking.

(17) In verifying the prices at which the work in progress is included in the inventory, a general examination and test of the cost system in force is the best means of doing this work satisfactorily. In a good cost system little difficulty will be found with the distribution of the raw materials, stores, and pay roll, but the distribution of factory overhead cost is one that should receive careful consideration, the main points to be kept in view being:

(*a*) That no selling expenses, interest charges, or administrative expenses are included in the factory overhead cost.

(*b*) That the factory overhead cost is distributed over the various departments, shops, and commodities on a fair and equitable basis.

(18) No profit should be included in the price of finished products or stock in trade. The price list should be examined to see that the cost prices of stock are below the selling prices after allowing for trade discounts, and, if they are not, a reserve should be set up on the balance sheet for this loss. If the company takes immediate steps to increase the selling price, however, the amount of this reserve may be limited to the loss on goods which may have been sold since the close of the period to the date of the discovery.

(19) In the case of companies manufacturing large contracts it is frequently found necessary to make partial shipments thereof. The question then arises as to whether it is permissible to include the profits on these partial shipments in the profit and loss account. As a matter of fact, it is evident that the actual cost can not be known until the order is completed. It may be estimated that a profit will ultimately be made, yet unforeseen conditions, such as strikes, delays in receiving material, etc., may arise to increase the estimated cost. It is better not to include the profits on partial shipments, but information of this character which may have its influence in the decision of the banker upon a proposed loan may properly be laid before him. Of course, an exception should be made in cases where the profit on the partial shipments largely exceeds the selling price of the balance of the order.

(20) The selling prices for contract work in progress should be ascertained from the contracts, and where it is apparent that there will be a loss on the completed contract a due proportion of the estimated loss should be charged to the period under audit by setting up a reserve for losses on contracts in progress.

(21) If a company has discontinued the manufacture of any of its products during the year, the inventory of such products should be carefully scrutinized and, if unsalable, the amount should be written off.

(22) The inventory should be scrutinized to see that no machinery or other material that has been charged to plant or property account is included therein.

(23) Partial deliveries received on account of purchase contracts for material, etc., should be verified by certificates from the contractors, both as to quantities and prices.

(24) Advance payments on account of purchase contracts for future deliveries should never appear in an inventory, but be shown on the balance sheet under a separate heading.

(25) Trade discounts should be deducted from inventory prices, but it is not customary to deduct cash discounts. However, this may be done when it is the trade practice so to do.

(26) While the inventory is being verified, the auditor should ascertain the aggregate sales for the last year. If the turnover has not been rapid, it may be due to a poor stock of goods. Some business men dislike to sell below cost and would rather accumulate a big stock of old goods than dispose of the old and unseasonable stock at a sacrifice. The usual outcome is that the stock becomes unwieldy and funds are lacking to purchase new goods. The inventory and the gross sales may, therefore, have a direct connection.

(27) It may be well to reiterate that interest, selling expenses, and administrative expenses form no part of the cost of production, and therefore should not be included in the inventory in any shape.

COST OF FIXED PROPERTY.

In preparing the leading schedules for the accounts grouped under this heading, such as real estate, buildings, plant, machinery, etc., the balances at the beginning of the period, the additions to or deductions from the accounts during the year, and the balances at the end of the period must be shown.

The total of the balances at the beginning of the period must agree with the cost of property figures given in the balance sheet at that date, and the balances at the end of the period with the amount shown in the balance sheet that is being audited. The charges entering into the additions must be verified in detail, and in this connection the following notes are of value:

(1) Authorizations for the expenditure made during the year should be examined, and where the costs of the additions have overrun the sums authorized, inquiries should be made in regard thereto. The authorizations should show the accounts to which the expenditures are chargeable, the amounts thereof, the approvals of the comptroller and manager, and descriptions of the jobs. When the authorizations are not specific as to the work done, the actual additions should, if possible, be inspected.

(2) The auditor should satisfy himself before approving additions that they were made with the object of increasing the earning capacity of the plant, and that they are not of the nature of either renewals or improvements, and in this connection changes in the production and capacity of the plant should receive consideration.

(3) To verify the pay roll and store and supply charges to jobs, one or two pay roll distribution reports should be examined in detail, and also one or two storehouse reports. In cases where large purchases have been made from outside parties for capital construction

work, the vouchers therefor should be examined and the usual precautions taken to see that they are properly approved for the receipt of materials, prices, etc.

(4) For purchases of real estate the title deeds should be examined, together with the vouchers, and it should be seen that the deeds have been properly recorded.

(5) While it may be considered permissible to make a charge for factory overhead cost to additions to property such as, e. g., time of superintendent and his clerical force employed on construction work, etc., it can not be deemed conservative business practice, inasmuch as the probabilities are that the overhead charges of a plant will not be decreased to any extent even though additions are not under way, and, therefore, the absorption of part of these charges when additions are in progress, has the effect of reducing the operating costs, as compared with months in which no construction work is under way.

(6) Construction work in progress at the end of the fiscal period should be shown in the balance sheet under the heading of fixed assets and not as part of the inventories. This is important to bear in mind because construction work is not an asset that can be quickly turned into money, while everything in the inventory is supposed to be realizable in cash within a reasonably short time.

(7) The auditor should inquire as to whether any installments are due on account of construction work in progress which is being carried on by outside parties; and if so, the liabilities for these installments should be included in the balance sheet, as they may have a direct bearing on the amount of available cash on hand.

(8) When a company uses leasehold properties the leases should be examined and notes made of the periods covered, so that it may be seen that improvements, etc., on such properties are written off over the periods covered by the leases.

(9) The auditor should satisfy himself that the reserves for depreciation of buildings, machinery, equipment, etc., are adequate to reflect the deterioration in the value of the fixed properties. If in his opinion the reserves shown on the balance sheet are insufficient, he should call attention to the matter in his certificate.

(10) Care should be taken to insure that property destroyed by fire or otherwise prematurely put out of service is correctly treated in the books. Any portion of the original charge for such property which is not recoverable through insurance, as salvage or otherwise, and has not been provided for by the depreciation scheme should be written off.

It is to be observed that the foregoing notes are to be applied only to cost of properties incurred during the period under audit. In addition, information may usefully be obtained on broader lines in regard to the composition of the real estate, building, and machinery accounts, and showing what principal property is represented thereby and how the accounts have been built up from year to year for a reasonable time past if not from the inception of the business. The information derived therefrom is valuable only in indicating the progressive policy of the concern, the extent to which it reinvests undivided surplus in its plant, etc. Beyond these facts the banker who is asked for ordinary discounts or short-term loans is not interested; he looks more to the quick assets for his security.

Optional.—When the loan is greater than the quick assets seem to justify the auditor should suggest a reliable verification of the cost of property prior to the period under audit. Such action may become necessary even to the extent of calling for an appraisement by disinterested outside experts.

DEFERRED CHARGES TO OPERATIONS.

Under this heading in the balance sheet are grouped such items as unexpired insurance, bond discounts applicable to a future period, prepaid royalties, experimental charges, etc. After the clerical accuracy of the deferred charges has been verified the auditor should satisfy himself that they are properly carried forward to future operations.

Wherever possible, documentary proof must be produced in support of the items carried forward, as, for example, with unexpired insurance the policies must be examined to verify the dates of expiration, the amounts covered, and the proportion of the premiums carried forward; with royalties the agreements must be examined; with experimental charges the vouchers and particulars of the work done must be looked into, etc.

The examination of the deferred charges will usually furnish the auditor with valuable information in regard to the accounts of the company, as, e. g.:

(1) The verification of experimental charges carried forward will generally furnish information as to the production and future policy of the company.

(2) Royalty vouchers will generally furnish a check on the production of mines.

(3) An examination of the insurance policies will show if the properties are mortgaged or covered by lien, and thus be an additional verification of the liability for mortgages on real estate, buildings, etc., shown in the balance sheet.

(4) The assets covered by insurance will be ascertained and if any omissions are discovered they should be mentioned.

NOTES AND BILLS PAYABLE.

Under this caption appear notes payable and drafts accepted. Schedules should be prepared under the subcaptions, and in columns headed:

- Date of making the notes or drafts.
- Due dates.
- Names of creditors.
- Collateral hypothecated.
- Additional indorsers.
- Interest accrued to date of audit.
- Notations of renewals (as information of this nature furnishes a guide to the state of the concern's credit).

The schedule must be compared with the notes-payable book and the total of the aggregate must agree with the balance of the ledger account of notes payable.

Statements must be obtained from all banks and brokers with whom the concern does business, showing all notes and drafts discounted or sold by them for the benefit of the concern. These statements when received must be checked against the loans shown on the concern's books and approved in the minutes of the company.

Inasmuch as a note is a negotiable instrument, care must be taken to see that all of those recorded as paid during the year under audit have been properly discharged, and the canceled notes are the best evidence of this fact.

Careful attention should be given to the collateral deposited for loans, and statements as to the existence of such collateral should be obtained from the holders thereof. Such hypothecation of any of the concern's assets should be accounted for on the balance sheet.

When practicable the auditor might suggest to the client the advisability of drawing notes payable on blanks bound in a book, like a check book, with a stub for each blank, the blank and the stub to bear identical numbers. The officer, or officers, signing the notes could, in such case, initial the stub as a certificate to the amounts, payees, and terms of the notes issued. If this were done, the auditing of bills payable would be greatly facilitated.

ACCOUNTS PAYABLE.

A list of balances due on open accounts must be prepared and carefully checked with the ledger accounts, care being taken to see that no open account on the ledger has been omitted from the list. It should be ascertained that the balances represent specific and recent items only. When any account does not appear regular a statement from the creditor should be obtained. If there are many such accounts in dispute, and they amount to so large a sum as to affect appreciably the total of current liabilities, the general causes for the disputes should be inquired into and note made of the matter for the consideration of the banker.

In concerns with modern voucher systems accounts payable are easily verified, as all liabilities are then included in the books when incurred. Care should be taken, however, to see that all goods received on the last day of the fiscal period, as shown by the receiving records, and also all goods that were in transit and belonged to the concern on that date, are included as liabilities, and the corresponding assets included in the inventories. This test is necessary, as an increase in the accounts payable may have a very important bearing on the financial position of the concern if the cash on hand is small.

Monthly expenses outstanding can usually be ascertained by a comparison of the expenses of the last month of the fiscal period with previous months, and those of the year with the previous year. The voucher record should, however, be examined for the months subsequent to the close of the fiscal year, in case any expenses included therein are applicable to the fiscal period under audit.

When a first-class voucher system is not in operation the auditor must take additional precautions to satisfy himself that all liabilities are included in the accounts, among which may be mentioned:

(1) Payments made in the months subsequent to the date of the fiscal period as shown by the cashbook, which should be carefully scrutinized to see that none of them is applicable to the period under review.

(2) The file of bills not vouchered or entered on the books should be examined to see that none of them belongs to the period under audit.

(3) A careful perusal of the minutes of a company may further assist the auditor in determining liabilities.

When a company has large purchase contracts in force for future deliveries they should be examined, for if the contract prices are greater than market prices, it might be necessary to set up a reserve for this loss. Any debit balance due to advance payments on such contracts or to any other cause should be shown on the balance sheet under a separate heading.

If the business under audit is one where there is any possibility of goods having been received on consignments, and part or all of such goods having been sold without a liability therefor having been shown in the books, the auditor must use all due diligence to cover the point fully. This may readily happen, as consignment accounts are usually treated as memoranda only.

If inquiry develops the fact that goods have been received on consignment, all records in connection therewith should be called for. If the goods have all been sold, the consignor's account should show the full amount due, and if the debt is a current one, the amount will appear among accounts payable due to trade creditors. Where only part of the goods have been sold, the net proceeds due to the consignors should be shown on the balance sheet under the caption of "Accounts payable consignors."

As an additional precaution against the omission of liabilities a certificate should be obtained from the proper officer or member of the concern stating that all outstanding liabilities for purchases and expenses have been included in the accounts of the period under review or of former periods. In many cases it is also advisable to obtain a certificate from the president stating that all liabilities for legal claims, infringements of patents, claims for damages, bank loans, etc., have been included, as he may be the only executive officer of the company to know the extent of such obligations.

CONTINGENT LIABILITIES.

It is not enough that a balance sheet shows what must be paid; it should set forth with as much particularity as possible what may have to be paid. It is the duty of an auditor who makes a balance-sheet audit to discover and report upon liabilities of every description, not only liquidated debts but possible debts. The following are the usual forms under which contingent liabilities will be found:

Indorsements.—Inquiry of the officers or partners of the concern should be made as to whether any indorsement of outside paper has been made and as to any security received to protect the concern. Such inquiry should be particularly strict if it is known that any of the officers or partners are interested in other enterprises.

Guaranties.—Similar action should be taken in the matter of guaranties.

Unfulfilled contracts.—Contracts to accept the delivery of goods contracted for before the date of the balance sheet, may call for the payment of large sums of money within a short time. In the case of raw materials, for a manufacturer, this might be a perfectly legitimate reason for seeking a temporary loan pending production and sale, but for a merchant whose balance sheet shows a large stock of goods on hand, it might indicate a real liability impending with assets of a doubtful character to offset it. In every audit, therefore, the auditor should call for copies of all orders for future delivery, and if such orders call for stock in excess of the current and reasonable prospective demand, mention should be made on the balance sheet and a report submitted, the details depending upon the circumstances of each particular case.

Items other than those arising from the specific hypothecation of current assets to be listed under item 20 should appear as a footnote on the liability side of the balance sheet, the total amounts being stated for each subheading and such additional report made as will convey clear information to the banker.

ACCRUED LIABILITIES.

Under this caption are grouped such items as interest, taxes, wages, etc., which have accrued to the end of the period under audit, but are not due and payable until a later date. The verification of such items can be accurately made from the books and records. Special attention may be directed to the following:

Interest payable.—Many of the liabilities which appear on a balance sheet carry interest. Such items as bonds and notes payable are obvious, but the auditor should also consider the possibility of accounts also bearing interest, as enough book accounts, when past due, do bear interest to warrant inquiry being made. Loan accounts of partners and officers of corporations almost invariably bear interest; also judgments, overdue taxes, and other liens.

Taxes.—The amount of accrued State and local taxes can be ascertained from an examination of the latest tax receipts; though in some cases, as the period for which the taxes are paid is not shown on the face of the receipt, it may be necessary to make inquiries of the proper taxing authorities as to the period covered.

Under the Federal income tax law a tax of 2 per cent is imposed upon the net profits of a corporation, which must be paid even if the corporation is dissolved before the end of the year during which the tax is imposed. As the tax is specifically based upon the net profits of a particular period, although payable some months thereafter, the tax accrues throughout the specified period, and if a net profit is disclosed upon the closing of the books at any date during the year, a reserve of 2 per cent must be shown on the balance sheet as an accrued tax.

Wages.—Where the date of the balance sheet does not coincide with the date to which the last pay roll of the period under audit has been calculated, the amount accrued to the date of the balance sheet must be ascertained and entered as a liability, unless such amount is trifling. It will suffice to take the proportion of a full week's pay roll (six days) without reference to possible daily variations.

Water rates, etc.—Where bills for such expenses as water, gas, etc., are not rendered monthly, the auditor must enter the accrual of the proper proportion since the last bill as a liability.

Traveling expenses and commissions.—It is important to note whether the accounts of all traveling salesmen have been received and entered before the books are closed. The auditor should secure a list, and if any report was not so entered, provision should be made for it unless the amount is likely to be trifling.

Ample provision should be made for all commissions eventually payable on sales which have been billed to customers. As commissions are frequently not payable to salesmen until the sales have been collected from the customers, accrued commissions are often omitted from the books. As they must, however, be paid out of the proceeds of the sales on which the full profit has already been taken into the accounts, they should be set up as an accrued liability.

Legal expense.—All concerns have more or less litigation. Before the books are closed the lawyers should be requested to send in a bill to date. If one is not found, the auditor should ascertain the amount, if any, probably due and set it up as an accrued liability.

Damages.—If the concern is insured against liability for damages to employees or the public, a proportion of the premiums paid in advance for the unexpired time covered by the insurance will appear in "Deferred charges." But there may be claims or suits for other damages not covered by insurance, and where the auditor finds any evidence which leads him to suspect there may be liability of this nature he should insist upon being informed of all the facts. He can then form an opinion as to the amount that should be set up as an accrued liability, or, if the outcome is uncertain, as a reserve against possible loss.

BONDED AND MORTGAGE DEBT.

A copy of the mortgages must be examined and the terms thereof noted. The amount of bonds registered, issued, and in treasury, rate of interest, and duration of the bonds, should be shown on the face of the balance sheet. A certificate should be obtained from the trust company certifying the amount of bonds outstanding, etc., as verification of the liability stated in the balance sheet. The interest on the bonds outstanding, shown in the balance sheet, should be calculated and reconciled with the interest on bonds, as shown in the profit and loss account.

Sinking-fund provisions in mortgages should be carefully noted and care should be taken to see that they are provided for in the accounts of the company, and any default noted in the balance sheet.

Bonds redeemed during the period or previously should be examined to see that they have been properly canceled, or, if they have been destroyed, a cremation certificate should be obtained from the trustees.

Mortgages sometimes stipulate that the current assets must be maintained at a certain amount in excess of the current liabilities, and the auditor must give due consideration to such matters and any other stipulation in regard to the accounts, or any audit thereof, that may be referred to in the trust deed, and see that they have been complied with.

Mortgages.—As a mortgage derives its chief value from the fact that upon registry it becomes a lien, the auditor should verify the existence of such an obligation by inspecting the public records, not only with reference to such as may be found on the company's books, but also any that may still appear on the public records as unsatisfied. If the auditor lacks the necessary facilities for making a search it will be worth his while to arrange with a local lawyer or title company whereby, for a small fee, any mortgages or judgments entered against the concern under audit will be reported to him.

In any event the auditor must verify the amount as recorded in the account, the rate, the due date, and the property covered thereby.

It should be borne in mind that a payment on account of a mortgage must be recorded or the entire amount will remain as an encumbrance on the property. Therefore, if payments on account appear, the auditor should ascertain if they have been so recorded; if not the fact should be noted on the balance sheet.

Judgments.—The same procedure should be followed in verifying judgments as in verifying mortgages. As many business men consider that the entry of an invoice is an admission of liability, and will not permit the entry of a claim which they propose to fight, it is sometimes difficult for an auditor to find any evidence of such liens. Even admitting the fact, they may still refuse to allow the judgment to be entered on the books as a liability, in which case it is proper for the auditor to include it as a footnote on the balance sheet as a contingent liability.

Unpaid interest.—When considering the matter of liens it should be noted that interest unpaid is a lien as well as unpaid principal, so where the auditor finds evidence of interest on liens being in default, he should add it to the principal in each case.

CAPITAL STOCK.

As a rule trust companies are the transfer agents for the capital stock of large corporations and for verification purposes it is sufficient to obtain letters from them certifying to the capital stock outstanding.

Where companies issue their own stock, the stock registers and stock certificate books should be examined and compared with the lists of outstanding stockholders.

On the balance sheet each class, if more than one, of stock must be stated, giving amount authorized, issued, and in treasury, if any. In the case of companies with cumulative preferred stocks outstanding a note must be made in the balance sheet of the dividends accrued but not yet declared.

If stock has been sold on the installment plan, the auditor should ascertain that the calls have been promptly met and whether any are in arrears. If special terms have been extended to any stockholder, approval of the board of directors is necessary and the minutes should be examined accordingly.

If any stock has been sold during the period under audit, the auditor should verify the proceeds of the sales.

SURPLUS.

The auditor should give consideration to the surplus at the beginning of the period. This item represents the accumulated profits prior to the beginning of the fiscal period under review, and should be compared with the surplus shown on the balance sheet of the previous year, and with the ledger account, to see that it corresponds, and if it does not, a reconciliation statement should be prepared giving full details of the differences.

PROFIT AND LOSS.

The auditor should obtain the profit and loss statement for three years, at least, inincluding the period under audit, and after verifying them by comparison with the ledger account, prepare a statement in comparative form. This comparison will furnish valuable information to the banker as to the past progress of the concern under audit.

A satisfactory form of profit and loss account is annexed hereto, but any other form giving substantially similar information is acceptable.

While it would be impracticable in an ordinary balance-sheet audit, and, at the same time, somewhat useless to make a detailed check of all the transactions entering into the composition of the profit and loss account, there are certain main principles to be kept in view which are briefly outlined below:

SALES.

Whenever it is possible, the quantities sold should be reconciled with the inventory on hand at the beginning of the period, plus the production, or purchases, during the period, less the inventory on hand at end of the period.

Where a good cost and accounting system is in force, the sales records will very probably be in good shape, but nevertheless, the auditor should satisfy himself from the shipping records that the sales books were closed on the last day of the fiscal year, and that no goods shipped after that date are included in the transactions.

When an audit is being made for the first time, the auditor should satisfy himself that the sales at the beginning of the period were recorded in accordance with the dates of shipments. Such verifications can be made conveniently by a direct comparison of the shipping memoranda with the invoices billed.

Allowances to customers for trade discounts, outward freights, reductions in prices, etc., should be deducted from the sales in the profit and loss account, as the amount of net sales is the only figure of interest to the bankers.

The future bookings at the close of the fiscal year should be looked into, as a comparison of orders on hand with corresponding periods of other years furnishes the bankers with an idea of the concern's business outlook.

COST OF SALES.

The inventory at the beginning of the period, plus purchases during the period, less inventory at the end of period, gives the cost of sales. In a manufacturing concern the factory cost of production takes the place of purchases. These items will have already been verified in auditing the balance sheet, but nevertheless care should be taken to see that this heading has not been made a dumping ground for charges which would be more properly embraced under the heading of special charges. The composition of the items entering into the cost of sales should be traced in totals into the cost ledgers or accounts.

GROSS PROFIT ON SALES.

This is obtained by deducting the cost of sales from the net sales. The ratio of gross profits to net sales should be calculated and compared.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.

Under these general headings should be set down the expenses itemized to correspond with the titles of the ledger accounts kept in each division. In checking the totals of each account with the statement for the period under audit, special attention to credits in these accounts should be given to see that none have been made for the sale of capital assets and for other items which should not appear in expense accounts. The percentages of the totals of each division and of the aggregate total to net sales should be calculated for each year for comparison.

NET PROFIT ON SALES.

This is obtained by deducting the aggregate total of the selling, general, and administrative expenses from the gross profit on sales, and shows the net earnings of the concern on its real business. Ratio to sales should be calculated for each year for comparison.

OTHER INCOME.

Under this heading is embraced any income that may be derived from sources outside of sales, such as income from investments, interest, discounts, etc. Schedules should be prepared of each item, and the auditor should satisfy himself of their accuracy and of the propriety of including them as income.

DEDUCTIONS FROM INCOME.

Under this heading are grouped such items as interest on bonded debt, interest on notes payable, etc. The same procedure of verification as in the case of other income should be followed.

NET INCOME—PROFIT AND LOSS.

Adding other income to gross income and deducting deductions from income gives the net income or profit and loss for the period, which is the amount that should be carried to the surplus account.

SURPLUS ADDITIONS AND DEDUCTIONS.

Items of unusual or extraordinary profit which do not belong strictly to the period under audit, or can not be said to be the legitimate result of the ordinary transactions of the concern, should be entered here and verified with the surplus account. Similarly, deductions should be treated. Also dividends declared should be entered in the surplus account and as an item under this caption, inasmuch as it is the usual custom to declare dividends "from net earnings and surplus." After adding special credits to and deducting special charges from the net income we have the total profit and loss for the whole period from all sources which, added to the surplus balance at the beginning of the period, gives us the surplus at the end of the period, which should agree with the surplus as stated on the balance sheet.

GENERAL.

These instructions cover audits of small or medium-sized concerns. In large concerns having, for instance, tens of thousands of accounts or notes receivable, the detail procedure suggested would be impracticable, and internal check should make it unnecessary. In such cases only tests can be made, but the auditor must always be prepared to justify his departure from a complete program by showing that the purposes sought to be accomplished thereby have been adequately effected by his work.

Any extensive clerical work, such as preparations of lists of notes receivable, etc., should be performed by the client's staff, so as to avoid unnecessary employment of professional staff in merely clerical work and consequent undue expense.

FORM OF CERTIFICATE.

The balance sheet and certificate should be connected with the accounts in such a way as to ensure that they shall be used only conjointly. This rule applies also to any report or memorandum containing any reservations as to the auditor's responsibility; any qualification as to the accounts, or any reference to facts materially affecting the financial position of the concern.

The certificate should be as short and concise as possible, consistent with a correct statement of the facts, and if qualifications are necessary the auditor must state them in a clear and concise manner.

If the auditor is satisfied that his audit has been complete and conforms to the general instructions of the Federal Reserve Board, and that the balance sheet and profit and loss statement are correct, or that any minor qualifications are fully covered by the footnotes on the balance sheet, the following form is proper:

I have audited the accounts of Blank & Co. for the period from .... to .... and I certify that the above balance sheet and statement of profit and loss have been made in accordance with the plan suggested and advised by the Federal Reserve Board and in my opinion set forth the financial condition of the firm at .... and the results of its operations for the period.

(Signed) A. B. C.

[FORM FOR PROFIT AND LOSS ACCOUNT.]

Comparative statement of profit and loss for three years ending..............19 .

	Year ending—		
	19—	19—	19—
Gross sales	$..........	$..........	$..........
Less outward freight, allowances, and returns	....	....	....
Net sales	....	....	....
Inventory beginning of year	....	....	....
Purchases, net	....	....	....
	....	....	....
Less inventory end of year	....	....	....
Cost of sales	....	....	....
Gross profit on sales	....	....	....
Selling expenses (itemized to correspond with ledger accounts kept)	....	....	....
Total selling expense	....	....	....
General expenses (itemized to correspond with ledger accounts kept)	....	....	....
Total general expense	....	....	....
Administrative expenses (itemized to correspond with ledger accounts kept)	....	....	....
Total administrative expense	....	....	....
Total expenses	....	....	....
Net profit on sales	....	....	....
Other income:			
Income from investments	....	....	....
Interest on notes receivable, etc.	....	....	....
Gross income	....	....	....
Deductions from income:			
Interest on bonded debt	....	....	....
Interest on notes payable	....	....	....
Total deductions	....	....	....
Net income—profit and loss	....	....	....
Add special credits to profit and loss	....	....	....
Deduct special charges to profit and loss	....	....	....
Profit and loss for period	....	....	....
Surplus beginning of period	....	....	....
	....	....	....
Dividends paid	....	....	....
	....	....	....
Surplus ending of period	....	....	....
	....	....	....

[FORM OF BALANCE SHEET.]

ASSETS.			
Cash:			
1a. Cash on hand—currency and coin		....	
1b. Cash in bank		....	
			....
Notes and accounts receivable:			
3. Notes receivable of customers on hand (not past due)		....	
5. Notes receivable discounted or sold with indorsement or guaranty		....	
7. Accounts receivable, customers (not past due)		....	
9. Notes receivable, customers, past due (cash value, $)		....	
11. Accounts receivable, customers, past due (cash value, $....)		....	
Less:			
13. Provisions for bad debts..	....		
15. Provisions for discounts, freights, allowances, etc.	....		
		....	
			....
Inventories:			
17. Raw material on hand		....	
19. Goods in process		....	
21. Uncompleted contracts	....		
Less payments on account thereof	....		
		....	
23. Finished goods on hand		....	
			....
Other quick assets (describe fully):			
....		....	
....		....	
			....
Total quick assets (excluding all investments)..		....	....
Securities:			
25. Securities readily marketable and salable without impairing the business		....	
27. Notes given by officers, stockholders, or employees		....	
29. Accounts due from officers, stockholders, or employees		....	
			....
Total current assets		....	....
Fixed assets:			
31. Land used for plant		....	
33. Buildings used for plant		....	
35. Machinery		....	
37. Tools and plant equipment		....	
39. Patterns and drawings		....	
41. Office furniture and fixtures		....	
43. Other fixed assets, if any (describe fully).		....	
....		....	
		....	
Less:			
45. Reserves for depreciation		....	....
Total fixed assets		....	
Deferred charges:			
47. Prepaid expenses, interest, insurance, taxes, etc.		....	....
Other assets (49)		....	....
Total assets		....	....

LIABILITIES.			
Bills, notes, and accounts payable:			
Unsecured bills and notes—			
2. Acceptances made for merchandise or raw material purchased		....	
4. Notes given for merchandise or raw material purchased		....	
6. Notes given to banks for money borrowed		....	
8. Notes sold through brokers		....	
10. Notes given for machinery, additions to plant, etc.		....	
12. Notes due to stockholders, officers, or employees		....	
			....
Unsecured accounts—			
14. Accounts payable for purchase (not yet due)		....	
16. Accounts payable for purchases (past due)		....	
18. Accounts payable to stockholders, officers, or employees		....	
			....
Secured liabilities—			
20a. Notes receivable discounted or sold with indorsement or guaranty (contra)		....	
20b. Customers' accounts discounted or assigned (contra)		....	
20c. Obligations secured by liens on inventories		....	
20d. Obligations secured by securities deposited as collateral		....	
			....
22. Accrued liabilities (interest, taxes, wages, etc)		....	....
Other current liabilities (describe fully):			
....		....	
....		....	
			....
Total current liabilities		....	....
Fixed liabilities:			
24. Mortgage on plant (due date ....)..		....	
26. Mortgage on other real estate (due date ....)		....	
28. Chattel mortgage on machinery or equipment (due date ....)		....	
30. Bonded debt (due date ....)		....	
			....
32. Other fixed liabilities (describe fully):			
....		....	
....		....	
			....
Total liabilities		....	....
Net worth:			
34. If a corporation—			
(a) Preferred stock (less stock in treasury)		....	
(b) Common stock (less stock in treasury)		....	
(c) Surplus and undivided profits..		....	
Less—			
(d) Book value of good will	....		
(e) Deficit	....		
		....	
			....
36. If an individual or partnership—			
(a) Capital		....	
(b) Undistributed profits or deficit..		....	
Total		....	....