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Duties of the junior accountant

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American Institute of Accountants. Endowment Fund

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By

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Duties of the Junior Accountant

CHAPTER I

This series of articles, written in response to many inquiries from persons who are considering the desirability of public accounting as a means of livelihood, or who, having studied therefor, are about to commence practical work, does not aim to add anything to the sum of human knowledge. Its object is to set forth just what work is expected of the beginner and of the more experienced junior accountant.

Books dealing with the theory of accounts and with the work of senior accountants are sufficiently numerous. The teaching in colleges and in special accounting classes is based upon the existing literature of the subject; and the product of the colleges and classes is frequently better fitted to deal with the problems of the senior accountant than with the work that will be assigned on entering the practical field.

We hope to set forth herein the drudgery, and sometimes the pettiness, that is inseparable from accounting, so that those contemplating taking up the work may do so with open eyes.

Here we would point out that the several examinations for the degree of C.P.A. are necessarily artificial, in that during a very few hours the applicant must show his knowledge of those branches of accounting that demand special technical training. In actual work the accountant does not pass in rapid succession on important matters of principle. Such matters occur only at intervals—sandwiched between them being long periods of plain, ordinary hard work.

It is true that the partners of great firms, and to a small extent supervising accountants, have to deal with matters of principle that arise in the work of others, but even in these cases the matters have been considered by juniors who bring together such facts and figures as will clarify the situation and enable the seniors to decide the points involved.

In the practical examination for the C.P.A. degree there are usually five or six difficult decisions to be made and worked out within as many hours, without possibility of obtaining additional information as to circumstances. It is probable that if, in actual business, any reputable public accountant were asked to render an opinion or give a certificate upon information as limited and as vague as that contained in an examination question, he would decline to consider it.

The person contemplating entry into the profession should not, therefore, derive his impressions of the nature of the work to be done from the books containing the questions asked at these examinations nor from the periodicals in which such questions are discussed and solved.

Auditor's Records

It is a matter of surprise to the beginner to find that auditors keep full records of the matters on which they are engaged. These records are usually referred to as "working papers" or "schedules."

The uses of these schedules are many: the work of the junior must be passed upon by the senior, and again by a partner of the auditing firm, and the working papers offer the only means of doing this. But even if a piece of work were done by the senior partner of the auditing firm the same schedules or working papers would be prepared, because they enable the auditor to back up the matter contained in his report even though denied further access to the books, and also furnish a starting point for the audit of the next succeeding period.

It happens also that the schedules contain figures arranged so as to show how conclusions were reached; to show reasons for disagreements with book figures; and to show items omitted from the books.

It is not unusual for auditors to examine books against the will of the custodian, either under an order of court or at the instance of creditors, and in such cases it is quite probable that a second examination might be denied, leaving the working papers as the only available record.

Auditors also arrange their records so as to show, if necessary, the nature, age and cost of the items of fixed asset accounts. In making these schedules it becomes necessary to obtain details from invoices, bills of sale and other records which are not carefully filed and preserved in the office of the client. Then, after years, it frequently happens that necessity arises to show exactly what the assets are, and any auditor who has consistently examined the books would be open to criticism if he could not show generally what assets should be in existence.

The working papers also serve to prevent the client from altering his accounts without detection after audit, since the balances of all accounts—particularly of fixed asset and capital liability accounts — as shown on the auditor's papers at the close of one period are taken up as the starting point for the next. If no papers were preserved the client could change totals of audited expense and fixed asset accounts in such a way as to falsify his apparent financial position.

There is a general resemblance in the papers of most good auditors, but each firm has some peculiarities of its own. Some file correspondence with working papers, while others keep them separately; some arrange schedules to agree with the trial balance, others to agree with the balance-sheet and profit and loss account. The junior should ascertain the approved method of the firm he works for, and follow it exactly.

These records are prepared in part during the time when detailed checking is proceeding, and completed after the checking is finished.

Beginning of the Work

An absolute beginner is likely to be assigned to work under the immediate supervision of an older hand until he has considerable familiarity with actual work in the field. No embarrassment occurs when this happens. After a little experience, however, he is likely to be sent out, under the general direction of a senior who will not be in constant attendance on the work and may not accompany the junior at its beginning.

When this occurs the assistant should ascertain whether there exists a programme or outline of work to be done; he should read the correspondence in the case, and should look carefully over preceding reports if any have been made.

Upon introduction at the office of the client the auditor will frequently be told that everything is ready and asked, "Where do you want to begin?"

This is a natural inquiry, but is not quite so easily answered as the client may think. The auditor may not know what books are kept; he may not know anything of trade requirements or other special circumstances affecting the manner of keeping the accounts, nor the general customs of the office.

If at this point the auditor asks to have the general outline of the system explained to him, especially if any other assistant from his firm has previously audited the accounts, he may be looked on by the client as an incompetent; if he goes ahead blindly he will probably get into trouble. What is he to do?

It is safe in all cases to inquire whether all ledgers, including subsidiary ledgers, are balanced, and to ask for the trial balances. This may be followed by an inquiry as to which of the books are at liberty, and the time of the day at which different books can be had with least inconvenience to the client.

A glance over the general ledger trial balance will show whether there are any notes receivable or securities to examine, and this being ascertained the auditor may ask to take up the cashbook and general ledger.

With the cashbook the canceled cheques should be obtained and quite naturally the cash count and inspection of notes and securities is taken up.

Having counted cash, checked canceled cheques to cashbook, and verified the bank balance, the auditor may proceed to check the postings from the cashbook and journal to the general ledger. By the time all these things have been done the auditor, if at all competent, will have gathered a fairly complete knowledge of the system and will feel quite confident in asking for such other books as the accounts show to exist.

Perhaps there are three or four juniors on the work, for all of whom tasks must be found even before the assistant in charge has become familiar with the system. No error will be committed if juniors are assigned to copy and check the trial balances of the subsidiary ledgers in the manner to be described later herein. If necessary the juniors may be instructed to check footings and postings, or to make tests of them, in the subsidiary ledgers.

If the course outlined be followed there will be no waste of time or effort; the auditor will lose no standing in the eyes of the client, and the client will not be annoyed by having to explain to every new assistant the working of his books.

Generally speaking, auditing firms prefer to make frequent changes in the staff assigned to the work of any individual client, to the end that a variety of minds shall consider the situation from time to time, each new mind throwing light upon it from a different angle.

Clients, on the other hand, generally prefer to have the same assistant at each examination, thinking that familiarity with the books will save trouble to the bookkeepers.

Both have reason for their attitude, but an assistant who follows a plan similar to that outlined above may take up any new work without unduly bothering the bookkeepers. After a few experiences of this kind the auditor will find that he can diagnose a set of books without conscious effort, and he will develop the "auditor's instinct," which is a valuable asset.

In following pages the auditor is urged to understand and remember what the transactions are that are represented by the figures he is checking. It is assumed above that an examination of cashbook entries and vouchers and of the general ledger will suffice to indicate to the auditor what the other books of the system are, but this assumption is justified only if the auditor does look behind the figures at the transactions they represent.

Let us say, for example, that the cashbook entries are set up in several columns, one of which is "accounts payable," and that only the total of that column shows a posting page. There is probably a voucher register in which cash payments are posted, and no creditors' ledger, because if there were a creditors' ledger the cash book would show that the postings had been made to ledger pages. This evidence is not wholly conclusive, however, since postings to loose-leaved creditors' ledgers are sometimes indicated in the cashbook by a small check-mark or not indicated at all. Reference to the general ledger, however, will probably show whether the accounts payable control covers a ledger or only a voucher record.

At this point the auditor can set one of his assistants to take off the list of unpaid vouchers from the register, agreeing the total with the control.

Assume further that the "cash receipts" shows a column "cash sales" posted (1) by daily totals; (2) monthly, or (3) item by item. In case (1) there is probably a cash register machine, emptied daily; in case (2) a cash sales book separate from the regular sales book, and in case (3) no cash sale record except the cashbook. To verify this, see to what account in the general ledger the items are credited; if credited directly to "sales" there probably is no cash sales book; if credited to accounts receivable, or if *not posted,* there is probably a cash sales book. The cases where the cash received for cash sales is not posted are where a cash sales book is kept, the total posted to credit of sales, and the total of the cash sales column in the cashbook agreed with the total of the cash sales book.

Thus almost every book will indicate something about other books if examined intelligently, and the scrutiny of entries to gain knowledge of other books and other entires leads directly to the habit of considering every transaction as having two sides. You see one—what is the other?

Remembering that every set of books includes cashbook and general ledgers, and that cash accounts may always be taken up promptly, you can answer the question, "Where do you want to begin?" easily and confidently, although the books be strange to you.

In a few highly specialized lines of business—stock-brokers, banks—this procedure would fail; but such work is always in charge of experienced men who know what to do. Even in these cases the theory does not fail, and it is only because certain special work must be done with the greatest possible dispatch that the opening work is somewhat different to that discussed above.

CHAPTER II

Verification of Bank Balances, Cash on Hand, Etc.

Among the first duties of the junior accountant will be the verification of bank and cash accounts. Much misconception exists as to the requirements of the case.

It is necessary that all bank accounts, cash on hand, cash in transit, notes receivable, and sometimes negotiable securities, be verified on the same date. This is necessary because if one bank be verified on the 30th day of June, and another on July 1st, the auditor cannot always tell whether cash was withdrawn on July 1st from bank No. 1 (after verification) to be deposited in bank No. 2 (before verification).

Cash on hand may, similarly, be found correct on June 30th and may be deposited in bank No. 2 on July 1st; notes receivable may be examined June 30th and then discounted at bank No. 2 on July 1st; or they may have been pledged for a loan to make good shortage of cash on hand on June 30th, and then, after verification of cash, may have been redeemed and presented to the auditor at a later date.

Upon being assigned to verify cash in hand in a commercial or manufacturing concern the auditor should first examine the petty cashbook, inking in small red figures the totals as he finds them; and he should note the totals on his schedule, with balance on hand. He should then count the cash, checking his count with the cashier's own agreement slips if such exist. If unentered vouchers are presented to the auditor as part of the cash balance he should examine and list them, afterward assuring himself that they are not entered. To do this he should first vouch the entered items, stamping the vouchers with his audit rubber stamp. There should remain unstamped vouchers agreeing with those which the cashier included in the cash balance.

These vouchers may include memorandums of indebtedness by employees—such vouchers can be accepted only if a proper explanation be given for their existence and approval by the cashier's superior officer be obtained. If they consist of secondary petty cash funds, advances for traveling or other moneys to be distributed for the benefit of the firm, it is necessary only to ascertain that the advances were actually made and were properly authorized. If, however, they consist of I. O. U.'s, or loans, (advances for the debtor's benefit only) the auditor should inquire into the custom of the firm in this respect, and see that the heads of the concern are familiar with the circumstances.

The auditor will examine any cheques on hand that may have been cashed out of funds in the hands of the cashier, giving special attention to the names of the makers of the cheques, dates and location of the banks on which they are drawn. If these cheques are signed by the cashier, they do not differ in character from cashier's I. O. U.'s and are ground for suspicion that the cashier has made up a shortage by filing his own cheque. Wherever cheques signed by the cashier, or any officer or employee of the company, are presented as part of the cash balance, the auditor should endeavor to trace them to final payment through the bank.

This should not lead the auditor into pettiness. If an employee owes fifty cents because he could not make change, it is not necessary to see the president about it. The auditor must use some discretion. Perhaps there is a bad coin—if there is, the auditor may tell the cashier, but it does not justify any faultfinding.

The auditor should recognize that cashiers, especially if unused to audit examinations, may be sensitive; and care should be taken not to adopt the attitude of a detective.

After verifying cash on hand, the auditor should not lose track of the little red figures which he noted on the petty cashbook until he has vouched the petty cash, both as to receipts and disbursements up to the date of the count, and checked it to the ledger or general cashbook as the case may be. He should, before finishing his schedule, see that it agrees with the balance of petty cash as shown by the books at the date of audit. Such an agreement may take the following form:

THE STEEL MANUFACTURING COMPANY

Cash	*Audit September* 30, 1916		
	September 30. Balance		$142.16
Counted October 13, 1916			
9:30 A. M. October 3	Petty cashbook—Dr.		$1,863.41
" 3	" " —Cr.		222.34
	Balance		$1,641.07
Count:			
Currency notes	$1,200.00		
Cheque—Standard Oil N. J.	220.00		
Vouchers	63.80		
Advances:		8 cents short	
To travelers	35.00		
Coin	122.19		
	$1,640.99		

Ledger balance, September 30th	$ 142.16
Receipts—to October 13, 1916	1,721.25
	$1,863.41
Payments to October 13, 1916	222.34
Balance October 13th, as above	$1,641.07

Such a shortage as that shown above should not be criticized, since the most careful cashier may have such a difference if his accounts be verified without notice.

The balance at the date of audit, if it be not the same date as the cash count, should be compared with the ledger.

Note that the receipts ($1,721.25) between September 30th and October 13th are probably amounts withdrawn from the bank, and that unless the bank account is agreed at October 13th the auditor does not know how much cash should have been taken up as receipts.

After agreeing petty cash the auditor may take up the bank accounts. If the accounts are consistently audited at short intervals the last agreement of the account is to be taken as the starting point.

The canceled cheques are obtained and compared one by one first with the list of outstanding cheques at the last audit and then with subsequent cashbook entries. As the entry of each cheque in the cashbook is agreed with the canceled cheque the auditor should stamp the cheque with his rubber stamp and make on the cashbook a checkmark to indicate that the cheque has been inspected. The inspection of the cheque is to include (1) agreement of amount and of payee's name with cashbook entry, (2) inspection of signature, (3) verification of the fact that the cheque has passed through the bank. It is also desirable that the later cheques be scrutinized to see that they were passed through the bank prior to the date of the bank certificate.

When the auditor commences to verify the bank accounts it may happen that the last batch of canceled cheques has not yet been received from the bank—indeed, if the work be taken up promptly on commencing the audit it is inevitable that a few days will elapse before the bank returns canceled cheques up to the date when the audit begins. In such cases the auditor will check canceled cheques to the books up to the point at which the bank last balanced the account. He should, before returning the books to the cashier, take off a list of cheques outstanding at that point, using this list when the last batch of canceled cheques is returned. If this be not done the cashier may imitate the auditor's checkmark, placing it against entries of cheques that have not been paid or that have been paid to improper payees.

In making the bank agreement the auditor should ask for the cashier's agreement, which will assist in the work; but the cashier's agreement must not be used for any purpose except to check the successive steps taken by the auditor in making his own agreement.

It is usual for banks to furnish, on request, certificates showing the balance to the credit of the depositor. Such requests must be signed by the depositor or his agent, but should be mailed by the auditor personally, and the bank's certificate should be mailed direct to the auditor.

When completed, a bank agreement may appear as follows:

Bank September 30, 1916

Balance per cashbook and ledger September 30, 1916	$26,000.05
Receipts—September 30th to October 13th	116,200.00
	$142,200.05
Payments—September 30th to October 13th	89,000.00
Balance October 13, 1916	$ 53,200.05

Cheques outstanding October 13, 1916:		
No. 1863	$ 2,600.00	
1912	80.00	
1913	333.33	
1914	250.00	
1915	116.81	
	$ 3,380.14	
Cashbook balance	53,200.05	
	$56,580.19	
Interest to September 30, 1916, not credited on books	380.00	
	$56,966.19	
Bank charges, not yet taken up	3.10	
	$56,963.09	Bank certificate, October 13, 1916

In addition to vouching the payments with canceled cheques the auditor should compare deposits with cashbook receipts. The reasons for this are many; the cashier may be withholding temporarily funds that should be deposited, using the funds for speculation for his own profit; the account may be short, and the cashier may have borrowed money to bring the balance up to the proper amount at the date of audit; the cashier may have deposited receipts of the last few days without entering them as receipts in the cashbook, thereby making good for the time being an existing shortage.

When checking deposits with receipts the procedure will depend partly upon the form of books. If the cashbook have a column showing separately the individual deposits, and if this column can be footed and agreed with the total receipts, it is necessary only to check bankbook deposit entries with corresponding cashbook entries, observing that the total for each day corresponds with the receipts for that day.

Deposits are usually made daily. If no deposit column exist in the cashbook it may be necessary to foot each day's receipts separately, and compare with the corresponding bank deposit.

The deposits of the last few days must be specially scrutinized and agreed with cash receipts shown by the cashbook. This is necessary to prevent kiting of cheques and to detect deposits hurriedly made to cover previously existing shortage.

Auditors should never count cash on hand nor have the bank account balanced during banking hours. Bank certificates should be "at close of business" on the day selected for verification, the cash on hand being counted either after banking hours on that day or before the opening of banking business on the next day.

When cash is verified notes receivable should be examined and listed simultaneously. These notes should be considered in the same way as cash on hand.

The notes should be listed thus:

No. Name of drawer. Date. Due date. Amount.

After listing the notes the list should be compared with the ledger, to ascertain that the notes were duly debited to the notes receivable account, and that they have not been paid. The existence of a note does not necessarily prove that a firm can properly take it up as an asset. Frequently old worthless notes exist, which have been written off. Clerks can fabricate notes which auditors cannot distinguish from genuine notes. But if the books show such notes to have been received in the usual course of business, and credited to what appear to be genuine customers' accounts, the auditor is justified in taking them up as assets. This is especially true where the customers' accounts show notes to have been given previously, and to have been met at maturity.

The note schedule must be agreed with the ledger balance at the nominal date of audit. This agreement may take the following form:

Notes Receivable

Balance September 30, 1916		$20,000.00
Paid since, to October 13th:		
No. 8—	$2,000.00	
" 13—	2,000.00	4,000.00
		$16,000.00
Notes received since, to October 13th:		
No. 263		1,000.00
Balance October 13th, per list		$17,000.00

Against the entries on the auditor's schedule the word "examined" should be written as the notes are inspected.

The auditor should not only list overdue notes but in cases where a series of notes is given, a part of which has matured, he should ascertain that the matured notes have been met. If they have not been met, it is fair to presume that subsequent notes, even although they are not overdue at the date of audit, are of doubtful value.

To summarize this part of the work, the auditor should:

1—After banking hours of the day upon which the bank verification is to be made or before banking hours of the following day,

Count cash on hand

List unentered vouchers

Ink in petty cashbook the debit and credit footings

Make schedule, reconciling with balance at nominal date of audit, as shown by ledger

Inspect notes receivable

2—Send to banks applications for certificates, having the bank accounts balanced and canceled cheques returned. Mail the applications himself. Have the certificate sent direct to the auditor.

3—Check canceled cheques to cashbook entries (sometimes it is advisable to check the chequebook stubs, and compare stubs with cashbook.)

List outstanding unpaid cheques.

Reconcile cashbook balance with bank's statement.

Compare deposits with *cashbook* receipts, *not with lists of deposits in chequebook stubs.*

4—Having prepared schedules during this work, if any discrepancies appear take them up first with your senior accountant. If you are in charge of the work, ask for explanation from the employee concerned, unless you have reason to suspect dishonesty. In the latter case, if you cannot consult a senior, take the matter up with the head of the office in which you are working, carefully avoiding any direct suggestion of dishonesty. While thus avoiding offense to clients, do not accept any explanation that is not absolutely convincing.

Certain special features of cash verifications should be considered here.

Among the items "cash on hand" may be cheques which have been cashed out of funds on hand. These cheques may be signed by employees or officers of the company, in which case they do not greatly differ from I. O. U.'s; they may be of old dating; and the auditor should take care to pass no undeposited cheques without ascertaining and recording their true character.

Where cash sales are made the amount of cash sales not yet entered (which may usually be obtained from a cash register) should be added to the cash shown by the regular cashbooks. There may also be unclaimed wages on hand, in which case the auditor should verify the amount. He should inquire into the method of handling unclaimed wages, and report to his senior any looseness in this respect.

Where country banks are concerned, the hours at which cash and bank verifications can be made differ from those which can be used in case of city banks. Many country banks keep long hours, sometimes remaining open for business until 5:30 P. M., but these banks frequently consider the "close of business" to be the hour at which cheques received from other banks are cleared. Where these banks are involved it is especially necessary for the auditor to see that all deposits credited during the last few days are the same as the amounts received through the cashbook. If this be not done, a shortage may be covered by a deposit in one bank of a cheque drawn on another but not recorded on the books.

Where receipts of one day do not come into the cashier's hands until next day, so that receipts of the last day of the month are not deposited until the first day of the next month, a verification made at a later date is defective, even though there be no other cash on hand at the end of the month. The best possible verification can be had only when there is no cash on hand uncounted; but occasionally it is necessary, in the circumstances referred to above, to accept a verification of bank and cash as of a given date, and to add subsequent receipts in transit at the time of the cash count. In such cases special care is to be exercised in agreeing daily deposits for a few days before and after the date of the verification with cash receipts as shown by the cashbook.

Where notes receivable exist it may happen that some of them have been lodged with banks for collection. The usual practice is to lodge with the bank at the end of the month all notes falling due during the next month. Banks almost always acknowledge these deposits of notes, and if the total amount be comparatively small an inspection of the bank's receipts for the notes should suffice. As the notes might possibly be withdrawn from banks before maturity and sold or pledged for loans, it is preferable, where the amount of the notes is large, to obtain from the banks an acknowledgment, as of the same date as the bank verification, of the notes held for collection.

Some notes are secured by deposit of collateral. If the notes so state, the collateral should be inspected. If, however, the notes do not specify that collateral has been deposited the auditor is dependent upon such information as the client may choose to give, and should certify only that certain specified collateral was seen, and not that all collateral deposited was inspected.

Auditors should ascertain when they verify notes receivable and cash whether any accounts or notes have been pledged for loans and should ask if any inventory or other assets have been pledged. It is not always possible for the auditor to ascertain these facts positively, but he can usually find out whether it has been the custom of the company to pledge any assets. He will be influenced to some extent by the customs of the client with respect to making bank loans. Some advances, however, are made against accounts receivable, the pledged account remaining for business reasons in the name and custody of the pledger, who is under an obligation to report and pay collections immediately to the pledgee.

Checking Footings

Checking footings is perhaps the most irksome of all the work that falls to the lot of young accountants. There is no mystery about the footing of a single column of figures. The work expected of an auditor is not limited, however, to a single footing.

Frequently cashbooks, journals and some other books of original entry are of the columnar form, some items being posted from the totals of columns and some in detail from a sundries column. The sundries column may be analyzed and the postings made from the analysis. In all such cases the auditor should check the footings, not only of the columns but of the analysis, the sundries column and summaries from which postings are made. It is necessary to see that the totals of the items contained in the columns footed agree with the amounts posted either directly or through a summary.

A cashbook or other book may be in the form below:

		LF	A	B
Cash payments				
Douglas Robinson	Taxes	226	$120.00	
	Insurance	242	68.00	
		330	220.00	
				$408.00
Carstein & Co.	Commission	330		62.00
Brown, Green & Co.	Books		24.00	
	Blank forms		10.00	
	Envelopes	63	6.00	40.00
	Carried forward			$510.00

In this case only column B is footed. But in the entry shown "Douglas Robinson" the details in column A are separately posted. It becomes necessary to check the footing of the three items making up the $408.00, as an error would throw the accounts out of balance. The figure $408.00 is the amount of the cheque paid, and is verified with the canceled cheque; hence an error would probably occur in stating the amount of one of the items in column A—these being separately posted.

Upon verifying a footing the auditor should place under the verified total his own personal check-mark—but if the total is in pencil no check-mark should appear until the figures have been inked in, he keeping a memorandum of the totals in the meantime.

In making verification of ledger footings of open unbalanced accounts, especially personal accounts, it is customary for the auditor to note in very small, neat, red figures the total up to the point verified. It is sometimes possible to write these figures in the money column, close under the last line of figures included in the total; in other cases it is necessary to put these figures in the margin. Where customers' accounts have many items and payments are made from time to time liquidating only a part of the items it becomes improper to ink in these red figures in the money column, since upon payment of some of the earlier items the paid items may be balanced and ruled off at that point, and the red ink figures at the end are no longer correct.

CHAPTER III

Misuse of Adding Machines and Lists

Ability to use an adding machine skilfully is valuable to the auditor. Long lists of unpaid vouchers, taken from the voucher record, in order to agree unpaid items with the general ledger control, may be handled in this way if there is no necessity for a permanent list of creditors.

Machine lists of accounts payable and receivable are often furnished by the client to the auditor in order that the latter may verify the items, accepting the adding machine total. It is true that the machine does not err; but even though the items be verified the auditor must not accept the total without verification.

If there be anything wrong and the bookkeeper wishes to conceal it he can easily manipulate the adding machine so as to show on the printed list any total that he wishes. If it be desired to increase the total the operator can first depress the keys showing the amount by which he wishes to falsify the total, print, then turn the ribbon forward, tear it off, and start the list, leaving the falsification standing on the machine; or the carriage may be thrown back while the falsified figures are put on the machine without printing the amount.

Constant use of the adding machine for small additions is to be avoided; and a competent auditor, if he has to list items and describe them, can then add them more rapidly than he can again list them on the machine. Further, unless he calls back the machine list it is not certain that he has listed the items just as he has written them.

Finally, adding machine lists are quite unfit to form part of the regular working papers. Occasionally such a list may be worth preserving, in which case it should be pasted in strips on an ordinary sheet of working paper. If pinned to the working papers it is likely to become torn and lost, and is troublesome in any case.

As a rule the progress of the auditor in experience is marked by diminishing use of the adding machine, and diminished use of the adding machine will hasten the progress of the auditor. It is as a means of obtaining correct totals with comparatively inexpert help that the machine has its greatest use.

One of the most serious objections to the use of the adding machine to total items contained in the working papers is that the machine does not add what is on those papers, but does add the figures registered by depressing the keys. An omission of an item from the schedules may thus be overlooked, unless the items are compared after listing.

It should be understood that this criticism of the indiscriminate use of the machine applies mainly to the substitution of adding machine records for hand-written schedules in the working papers. Under suitable conditions the adding machine is not only useful, but is a necessary part of the equipment of any office.

CHECKING AND TESTING POSTINGS

Checking postings is not to be considered as consisting of a comparison of the amounts set opposite certain posting pages in the books of original entry and the corresponding pages of the ledger.

It is required that those making the check ascertain:

(1) that all entries in the book of original entry are carried, in detail or in total, both to the debit and credit side of some account in the general ledger;
(2) that all entries are posted to the proper accounts;
(3) and that all entries are fully understood.

In respect of the first-named requirement it is necessary that the assistant who is calling postings from books of original entry should call not alone those items that have a posting page set opposite to them, but all items. He should, before concluding that the postings on a given page are complete, run over every item in the money columns, looking to see that it is posted and checked.

Modern books of original entry are usually provided with columns for the purpose of grouping items of similar character so that they may be posted in total. A voucher record, for instance, may contain entries similar to the following:

Vou. No.	Name	LF	Total amount	Office expense	Materials	Repairs	LF	Sundries
1	Allen & Co.	33	$186.20	$80.20	$26.00	—	74	*$80.00
2	Wilson & Co.	139	2,180.00	—	1,780.00	—	94	†400.00
3	Jones, J. J.	226	16.22	—	—	$16.22		
4	Bear Spring	64	6.00	6.00				
5	Jackson Co.	22	229.80	28.00	200.00	1.80		
			$2,618.22	$114.20	$2,006.00	$18.02		$480.00
			322	118	244	266		

*Plant †Machinery

The above shows that a creditor's ledger is kept, the posting pages being those in the first column marked LF; that this ledger is represented in the general ledger by a controlling account on page 322; and that the general ledger contains accounts for office expense, materials, repairs, plant and machinery on pages 118, 244, 266, 74 and 94 respectively.

The check of general ledger posting should be such as to prove that all items have been posted to both debit and credit accounts in the general ledger. Obviously all the items are included in the total, $2,618.22, posted to the credit of "creditors' ledger." The debits on pages 118, 244 and 266 are clear enough. The auditor must see that all the items in "sundries" column are posted separately to the general ledger, and that the items included in the totals of the other distribution columns are not posted separately.

If the voucher record runs many pages between monthly totals, and if there are many items in the sundries column, the inexperienced junior may overlook the posting of the totals or the agreement of the totals posted to the debit side of the ledger with the total posted to the credit side. This should be looked to—it is important.

It has been stated that the auditor must understand the entries. When an item has been posted to a given account the auditor has not properly checked it unless he knows the nature of the account to which the item has been posted and the nature of the item. After the checking is done the auditor should be prepared to stand an examination as to the nature of every account in the ledger. If he could not pass such an examination, how could he tell that items were properly posted? Few juniors, however, are able to state for every item in their trial balances the exact nature of the account represented.

Do not fall into the habit, when calling postings, of looking only for the posting page in locating items. The page is frequently the most prominent mark by which to find items, but you should never forget to see that the item really belongs on the page to which it is posted.

The procedure best adopted to economize time is for the assistant who has the book of original entry to call the first ledger page occurring in his book. The second assistant finds and checks the item in the ledger. If the ledger account has very many items from the same book of entry the ledger assistant may call the items to the assistant having the book of original entry until that ledger page is cleared. The first assistant then goes back to the beginning of his book and calls the next ledger page. Where ledger accounts have but few entries it is waste of time and effort to try to clear them at once; and the first assistant should continue to call postings in rotation so as to clear the book of original entry until another ledger account of many items is reached.

Check-marks for postings in every case should be made close to the "posting folio" or posting mark made by the bookkeeper when the items are first posted. Do not make the check-marks in such a way that they can be mistaken for marks made with a different object.

If an item occurs with a wrong folio or without a folio do not imagine that because it is one item out of a thousand it may be passed—that item is the very one that you should check.

In the worst books you will find 99% of the items correct—you are after the 1% remaining.

In testing postings no object is served by checking to the ledger indiscriminately some of the entries in other books.

The auditor should, in making a test, select a section of the book of original entry and see that every item in it, without any exception whatever, is properly posted. He should then select a section of the ledger or certain accounts in the ledger and see that every item in them is in agreement with the books of original entry. In this way he will obtain evidence to show that all items in the books of original entry are posted to the ledger, and that all entries in the ledger are obtained from the books of original entry. That is what he wants to know.

It is of no value, however, to know that some items in one book agree with some items in another. No one ever doubted that.

When a senior instructs a junior to check postings, say of the journal to the general ledger, he usually arranges for two assistants to work together. They may often have to do this work for several days without intermission. They should sit so that their voices are clearly heard one by the other without effort. Loud calling of postings is not only extremely fatiguing to the throat if long continued, but offensive to the other occupants of the office. The two assistants should change places from time to time so as to divide the burden of constant calling. A low clear voice should be cultivated, and the assistant calling should watch the assistant who is at the ledger so as to facilitate his work. Thus, if the assistant have an item in the journal like this

Insurance	126	$180.00	
To Aetna Co.	66		$180.00

he calls "One twenty-six, insurance," and then waits till his associate has found the ledger page, then adds, "Debit one hundred eighty dollars." The ledger assistant should signify assent, usually by saying "Yes," or "Checked," or "Um," or something like that. Some assistants just grunt a little.

If the assistant who is calling should at once say "Insurance, page 126, debit one hundred eighty dollars" the ledger assistant will probably forget the amount by the time he has found the page and a little conversation may follow like this:

"How much did you say?"

"One hundred and eighty dollars."

"Debit or credit?"

"Debit."

"Oh! Why didn't you say so before?"

All of which wastes time, wears on the temper and makes the throat dry, especially if it occurs several thousand times in a single audit. Some accountants, in these circumstances, check amounts although they do not clearly remember the figures called to them, fearing, perhaps, that they will be thought stupid. Such checking is worse than none.

Let the junior stand aside and watch two other juniors checking postings, having in mind the foregoing remarks—he will then realize the amount of energy that may be wasted in the work.

Certain forms of error in posting are recognized as common, among them being the transposition of figures and the misplaced decimal point.

Many seniors test their juniors by calling intentionally transposed figures to find whether the junior is sufficiently attentive to catch the error; the failures to detect called transpositions are frequent, and the concentration of mind needed to detect such error is quite great, especially if the auditors have been checking postings for some time without finding any errors.

Allied to the transposition of figures is another form of error, which occurs quite as frequently in copied figures as in figures written from an oral source. This form of error affects a combination of figures such as $166.76, which may be copied $167.76 or $176.76. In either case close atten- is needed to catch the error when the figures are called in checking postings.

Not alone in this work, but in all kinds of mechanical or mental work, a long series of monotonous items, devoid of incident, dulls the mind and renders it unfit to detect minor errors. It is well, therefore, if possible, to check postings for a while, then change to checking footings or vouching, so that the faculties may not be blunted for any of the work.

The misplacement of the decimal point is more common in copied work than in matter written down as it is called; but in calling amounts there are some forms of error due to inexperience that are highly annoying. For example, consider the following figures: $26,874.30; $1968.30; $1004.30; $1.84, $184.00; $0.26; $26.00, and $26.15. The first should be called "Twenty-six thousand eight seventy-four, thirty." No one can misunderstand that. The next is "Nineteen sixty-eight, thirty;" but the third is not "Ten four, thirty," but "One thousand four dollars, thirty cents." The fourth example is "One eighty-four," but the fifth is not "One eighty-four," but "One hundred eighty-four dollars."

The next item is called "twenty-six cents," and the next "twenty-six dollars," but the last is "twenty-six fifteen."

A little thought will make clear why these figures are called in the manner specified, and the mental exercise of reasoning out why these forms are used will better fix in the mind the proper expressions than a reasoned explanation here. Think it over, remembering that the shortest possible form, consistent with positive certainty of meaning, is needed.

Vouching Entries

Vouching falls naturally into several classes, somewhat as follows:

Vouching payments with receipts,
Vouching payments with cheques—ordinary,
Vouching payments with voucher cheques,
Vouching purchases with original bills,
Vouching capital additions with original bills,
Vouching petty expenses.

Where payments made through the cashbook are posted direct to expense accounts—not passed through a voucher record—it is frequently necessary to vouch the payments with invoices as well as with canceled cheques, especially if the canceled cheques be not of the form called voucher cheques.

In such cases the auditor should see that the invoices are made on the printed forms of the firms from which the purchases are made; not on any form made up in the office of the client whose accounts are under audit. Upon verifying an item a vouch mark should be placed upon the cashbook over the item checked, thus: $\sqrt{}$
$1,863.24.

When the work is begun the auditor should not leave it until it is finished up to a given point, and he should make a record of all items up to that point for which the vouchers are missing. If this be not done the office staff can imitate the auditor's mark, and thus cover any items that they know to be improper.

Vouchers may be filed in the order in which they appear in the cashbook; in that case the work will proceed rapidly. Often, however, the invoices are filed in alphabetical order, and in such cases the page on which they are entered or the consecutive cheque number may be noted upon them and will assist in finding the entries. The vouchers themselves, if used where the cheques are not voucher cheques, may be receipted. If it be the custom of the firm to obtain receipts, the auditor should note any items not receipted, but the custom of using the canceled cheque as a receipt is growing and appears to have caused no losses.

Where the cheques are made out to "cash," to an employee or to any name other than that appearing on the original invoice for the goods purchased, a receipt from the supplier, on his own stationery, should be produced.

If the cheques used be voucher cheques, the examination of original bills for expense items is less important. It is usually sufficient to see that the cheques are made out to the proper firm, all properly approved and have been passed through a bank. The auditor will not know the signatures of the endorsers, but the banks do know them and pay to others than the proper payees only at their own risk.

Where vouchers are filed alphabetically it often happens that the auditor can save time by checking vouchers direct to the expense accounts in the ledger or subledger. For instance, if the expenses are posted from the cashbook item by item, either to the ledger or to a subordinate record, and are classified in such ledger or record, all the bills of a given firm, filed together, are likely to apply on one class of expense. This is particularly true of the expense accounts of stock-brokers, banks, etc.

The need for vigilance in examining vouchers to see that they have not been falsified is obvious; but, in addition to looking for alterations, etc., the auditor should keep in his mind the normal requirements of a business such as the one under examination, and should question any disproportionately large disbursement that may be found. Thus, if it be found that postage bills are largely in excess of the amount of preceding periods, or if petty disbursements for cigars, liquors, etc., occur, the auditor should quietly investigate.

In vouching purchase records with original bills the auditor should look out for duplications. Frequently firms send in bills in duplicate, and many instances occur where both copies are entered separately. Bills should be approved as to quantities received, prices and classification. On commencing voucher work if the auditor does not know who is entitled to approve bills, he should first inquire, and if possible see a specimen of the signatures of the persons approving.

Usually it is necessary only to see that the amount of the entry is supported by the vouchers; but in case of bills for merchandise constituting the principal items of the trading accounts it may also be requisite to check the quantities entered.

Upon verifying each item the auditor must place the "V" vouch mark just over the amount verified, and stamp his audit rubber stamp on the voucher. This should be so done that it covers a part of the original bill that could not be cut off without spoiling the invoice. If there be a long space below the items on the invoice and the auditor stamp in this space, the stamp mark may be cut off and the voucher submitted again to justify another entry.

During this checking work, vouchers for capital additions will pass through the hands of the auditor, and he should remember that additions to permanent assets must be listed and described in his working papers. If the additions for the period be few it is best to note details of the purchases at the time the vouching is done, so that the vouchers need not be gone over again. But if capital additions be very numerous it may be best to leave the schedule work, and go over the vouchers again. This latter plan is best where many additions are purchased from one or two firms and the invoices are filed alphabetically.

Petty expense vouchers (petty-cashbook) are more subject to falsification and to abuse than any other vouchers. Such falsifications represent petty stealing, sometimes of cash, sometimes of stamps, sometimes of merchandise. If a firm purchase for its own use articles that are suitable also for private use the principal safeguard is the approval, noted on the vouchers, of some one other than the person disbursing the money.

Purchases of postage stamps and some other articles are not covered by vouchers signed by outsiders. If the voucher be signed by one office employee it should be approved by another—

preferably a person of high standing in the office. Carfares, overtime pay to clerks, allowances for meals, traveling expenses—all are covered only by vouchers prepared in the office. All should be covered by proper approvals and should be watched to detect alterations after approval.

Before leaving the subject of vouching it may be well again to urge the auditor to take the trouble to understand what the transactions really are. All the knowledge you can pick up from the vouchers will be wanted later in the audit. You should know what the insurance bills represent, what the credits for insurance return premiums represent and where credited, so that when you value unexpired insurance you will not overlook reduced rates covered by return premiums.

If the junior be told to vouch the cash payments with receipts he will be given the book and shown where to find receipts. He should start working steadily, not wasting time at the beginning on microscopic matters, or he will have to hurry the work at the end. He should not hesitate to ask the cashier to show him just how the book and vouchers are arranged, and to explain any means that might exist of locating readily any voucher required. If the voucher record is to be vouched the invoices, in all probability, will be arranged in the same order as that in which the entries appear in the book.

Where one person works alone in vouching, he may find it best to compare a batch of vouchers, putting his vouch-mark on the book, and stamping with his rubber stamp when the batch is finished. If he do this he must take care not to stamp vouchers that have been overlooked in checking the book entries. When the vouching is done a list of items, the vouchers for which are missing, is prepared. This list or a copy of it is to be submitted to the clerk having charge of the vouchers, so that he may produce any voucher not found by the auditor. If such a clerk should find that a voucher reported as missing actually bears the auditor's rubber stamp imprint he is likely to consider the work done by the auditor as worthless. After making up the list of missing vouchers the auditor who has worked alone should go over the file of vouchers to make sure that none of those listed is present.

If two persons work together on the vouching one should examine and stamp the vouchers while the other checks the entries in the books. In this case there should be no risk of stamping vouchers that are not marked off on the books.

Checking Accounts Carried in Foreign Currency

Most importing houses have accounts with foreign houses, the invoices and the statements of which are in foreign currency, and the auditor is called upon to reconcile the balance, in dollars, with the balance as stated by the foreign house. In well ordered books the transactions are adjusted by debits or credits to exchange account so as to appear at a fixed rate of exchange, and foreign currency is stated for each item by the side of the American currency, in such a way that both may be added and the balance determined in each currency. If this is done any discrepancy between the dollar balance and that in foreign currency must be due to errors in conversion. To find such errors, especially in a long account, it is not necessary to check all conversions. The auditor, by checking the conversion of the carried-over balance at the end of each page, can determine the page which contains the error, and then check conversions on that page only.

As a consequence of delay in exchanging communications foreign accounts are liable to show many differences covering items in transit and unsettled claims. After verifying the correctness of the conversion of the balance on the ledger as shown above, the auditor should proceed to check item by item the entries on the ledger with the entries on the foreign statement, and should have no difficulty in locating the items in suspense.

Often, however, the ledger will contain only the American equivalent of the foreign invoices. If this be the case, it is hardly practicable to make a satisfactory reconciliation without setting up, on the working papers, an account showing both kinds of currency in parallel columns, not giving any detail except the money amounts. Then the auditor should proceed as indicated above.

CHAPTER IV

Verification of Securities

Auditors are often required to verify by physical inspection securities owned or held by clients.

Where only a very small quantity is to be examined the procedure needs no comment, but where, as in cases of banks, stock-brokers, insurance companies and large corporations, there is a large amount of securities to be verified the procedure is important.

If possible the auditor should first obtain a list of the securities to be counted. A satisfactory count then requires that two assistants work together, one checking the list while the other counts the stocks and bonds.

Almost always the securities will be contained in tin boxes. If there is more than one container the auditor should provide himself with adhesive seals, printed preferably with soluble aniline ink, to be affixed to each container as soon as its contents have been examined. Taking the first container, it should be emptied entirely of securities, which should be placed at one end of the table on which the count is made. Item by item the securities should be counted, and immediately replaced in the container. When all are counted the container should be locked and sealed with the auditor's seal. The next container may then be taken up and its contents verified in the same way. When all have been counted, the auditor should see that all his seals remain unbroken.

In the absence of these precautions it is possible for the same securities to be presented twice and counted twice. Indeed, fraud has actually occurred in this manner.

In no circumstances should an auditor verify securities except in the presence of a representative of the client. If he does he is liable to be charged with the misappropriation of any securities that may be missing.

Varying conditions modify the requirement as to the amount of inspection needed; but it may be said that the mere possession of securities does not imply ownership. Coupon bonds, which are transferable by mere delivery, cannot usually be identified as the property of any person other than the actual custodian, although in a few cases the numbers may be checked with advantage.

Stocks, however, bear the name of the owner of record, and if submitted for inspection as being the property of another they must be either (1) endorsed to the new owner, (2) endorsed in blank or (3) accompanied by a power of attorney enabling the new owner to have the shares transferred to himself.

Securities held by stock-brokers for clients who have bought them on margin are either in the name of the stock-broker or endorsed in blank. Securities held by private investors, insurance companies and large corporations are generally in the name of the owner or endorsed to the owner. Note should be made of any securities that are so executed and endorsed that the alleged owner could not sell and deliver them to an outsider.

Coupon bonds, as stated, are transferable without endorsement by mere physical delivery. They are to be verified by count only, note being made that the unmatured coupons are attached to them.

Occasionally it is necessary to see that the bonds are signed by the officers of the issuing company, but this occurs mainly in the case of special issues not guaranteed by a trustee or registrar.

Bonds are issued in several denominations, although the standard is $1,000. Some companies, unfortunately, have issued bonds of $1,000, $500 and $100, all under the same mortgage, printed in colors and binding so nearly alike that a careless count fails to distinguish between them.

The description of bonds and stocks cannot be too precise. There are many issues almost but not quite alike in name, but of very different values. An instance occurs in the several stocks bearing as part of the title the words "Rock Island." Although financial columns of newspapers refer to "Rock Island" as though that were a sufficient identification of the stock, the reference is to "Chicago, Rock Island & Pacific." There is, however, a stock of the Rock Island Company. Similar cases are common.

Stock exchange houses use contractions for the names of stocks, some recognized and authorized by the exchange, others special contractions for stocks not listed. Only a person thoroughly familiar with securities can safely use them. The junior who learns a few of them and takes pride in showing his knowledge has pitfalls before him. If he forgets, and uses an erroneous contraction in listing the securities that he is engaged in verifying, the error damages or utterly vitiates the whole work of verification. What is required is not a proof that most of the securities are correct, but that every single one is so.

Some of the less well known securities, especially the stocks of "underlying" companies, are of extraordinary value. Do not think because a stock bears an unfamiliar or grotesque name that it is necessarily a wildcat security — it may be almost priceless, carrying with it franchises or properties that are indirectly represented by well-known issues.

Finally, after the count is complete, note on the verified schedule the time and place of verification, the assistants engaged, and the qualifications, if any, which the auditor has to make either in respect of defective endorsements or other circumstance.

CHAPTER V

Taking Trial Balances

As a general rule the books will be balanced and trial balances prepared before the auditor takes up his work. These trial balances, however, must be checked with the ledgers and the auditor should not fall into the error, after agreeing the trial balance with the ledger, of accepting the balance shown by the controlling account as the amount of accounts receivable or accounts payable, as the case may be. It is almost always the case that the customers' ledger contains credit balances and the creditors' ledger debit balances. These may be large in amount, and cases have occurred in which companies wishing to improve the appearance of their balance-sheets have carried many large debit accounts in their creditors' ledger, thereby apparently reducing heavily by equal amounts the quantity of accounts receivable and accounts payable. The auditor on his working papers should add to accounts receivable all the debit balances in the creditors' ledger and to accounts payable all credit balances in the customers' ledger, unless these balances are offset by corresponding balances on the other side in other ledger accounts of the same firms.

This intermingling of debit and credit balances in customers' ledgers is particularly notable in the case of accounts with moving picture exhibitors. In certain accounts, the balance due from customers, as shown by the controlling account, is less than one-third of the total debit balances, the difference being made up of amounts paid by other customers in advance. In all such cases the statements prepared should show as accounts receivable the total of the debit balances and show on the other side of the balance-sheet as advanced deposits the amount of the credit balances.

Where debit balances are found in creditors' ledgers, the auditor may find that they are set up by charging to the creditor cash paid to him for goods which have actually been delivered but have not yet been put through the books. This has frequently been the means of detecting purchases which have been omitted from the accounts. It has also occurred that credit balances to customers have on investigation shown that customers have paid for goods which they have duly received that have been omitted from the sales accounts, either intentionally or by accident.

It will be clear that the discounts to be allowed on accounts receivable may be computed on the total debit balances and not on the net balance of a controlling account, especially if the credit balances represent either cash payment by customers in advance or credits for goods purchased on which discount is not receivable.

In making these trial balances it is usual to dissect the accounts so as to show the amount overdue. No hard and fast rule can be given for separating overdue accounts from those which are not overdue. In each case the customs of the trade and the arrangements of the firm under examination must be considered. In some businesses, such as raw and spun silk, the dating is arranged with the customer for each purchase, and a note of such dating is usually put in the ledger. The arrangement in such cases may be that the customer can take 90 days receiving no discount, or 60 days receiving 1% discount or cash within 10 days receiving 2% discount. Such an account would not be considered overdue unless the date had passed at which the account became due without discount, and the bald statement that an account is overdue is not sufficient.

Working papers should contain trial balances showing all the customers' accounts if possible and should show for each account of which any part appears to be overdue the amount over 60 days, the amount over 90 days and the amount over 6 months old. These periods may be varied if the customs of the business demand it. The manager of the clients' office or the credit-man should then go over the list of overdue accounts prepared by the auditor and should add his comments as to ultimate collectibility, and if possible should estimate the amount of reserve needed to provide against bad debts, which may reasonably be anticipated. This estimate is, of course, only advisory, and the auditor is not bound by it.

Where bad debts have been written off, the auditor should ascertain that the insolvencies really have occurred, either by examination of correspondence or in some other way. If bookkeepers or cashiers are permitted without supervision to charge off as bad any accounts which they may claim to be uncollectible, it is possible for them to collect and appropriate without detection the proceeds of accounts with firms that discontinue business with the client. If accounts are stated to be in the hands of attorneys for collection that fact should be verified if possible, either by examination of correspondence or by direct inquiry of the attorneys in question.

Of course in every case the working papers at every examination should contain a complete copy of the trial balance of the general and private ledgers.

Items Not on Trial Balances

Among the items which must be taken into account but may not be on the books are some which the junior should detect and take up in every instance. These are omissions from inter-departmental balances and balances between subsidiary companies, goods in transit and cash in transit.

It is quite common to find trial balances, apparently in order, which contain among "accounts receivable" amounts due from subsidiary companies or from departments of the same company, and among "accounts payable" corresponding entries, but for differing amounts. Wherever a trial balance shows any balance due from one department to another, from one subsidiary to another or from either to the principal company the auditor must see that the entry is exactly offset by a corresponding item in the accounts of the subsidiary or department concerned. If a department carry as an asset an amount due from another department and the second department does not show any liability in respect thereto the accounts as a whole contain an inflation of net assets, and the auditor can so easily find such an error that no excuse for failing to do so will be admitted.

Where subsidiary companies are concerned the detection of such errors is equally easy if the auditor has access to books of subsidiaries.

The detection of omission from inventories of goods in transit and of cash in transit are dealt with under appropriate headings herein.

To sum up this section, let the auditor, whenever he has access to books showing both sides of a transaction, compare the two entries and agree the resulting balances.

CHAPTER VI

VOUCHING CAPITAL ASSETS AND ADDITIONS THERETO

Where periodical audits are made it is usual to prepare balance-sheets annually or semi-annually. For this purpose it is necessary, having orginally verified the capital assets, only to vouch the additions for the period since last balance-sheet. This vouching is not limited to a comparison of items with original invoices — it implies also scrutiny of the character of the items to ascertain that items properly chargeable to expense are excluded.

If the accounts under audit are so kept that there is a depreciation reserve set up, intended to cover both depreciation of existing assets and renewals of discarded items, it is necessary to see that replacements are charged not to the asset accounts but to the reserve.

The procedure is to list, from the ledger and auxiliary records, the additions, showing date of purchase, name of supplier and amount; then to examine original bills and note on schedule, *from the original bill,* the character of the asset.

In making these notes do not rest content with a blind copy of the details appearing on the bill.

It may be a purchase of an automatic screw machine, and in conformity with trade custom may be described on the invoice thus:

1 auto No. 17633—Model B—with jackshaft	$9,000.00

The bill head on which it is printed will show that the article is not an automobile, and may show just what the machine is. But a person examining your schedule, not having the bill, could form no idea of the real character of the purchase. The entry on your schedule should appear somewhat as follows:

June 3—Cincinnati Mill Mach. Co.
$9,000.00 Automatic Screw Machine Model B

The general form of the schedule may be:

Machinery	
Balance last audit (Jan. 1, 1915)	$273,000.00
Additions, as below	22,000.00
	$295,000.00
Returned and discarded items	1,100.00
	$293,900.00

It is often desirable to note on the schedule the amount of depreciation reserve provided at the beginning of the period under audit and also the amount added during the period.

Where additions to plant are constructed by the employees of the company whose books you are examining you are to some extent at the mercy of the company. You should inspect original payrolls to see that the employees whose time is charged to construction were originally recorded as working on construction. If the company has not so separated the wage accounts, the auditor should ascertain and state on his schedule the grounds upon which the charges to construction were made. He should see that the wages so charged are not widely inconsistent with the materials used for construction and the finished asset.

Land is usually covered by land purchase contracts and evidence of payment (canceled cheques, etc.). It is possible to inspect official records of ownership, kept by county clerks, etc.; but the auditor is not expected to make such examinations unless there be a special reason.

Buildings, if constructed by outside firms, are usually covered by (1) contract with builder; (2) receipts for money paid on account; (3) canceled cheques; and (4) architect's certificates. Nos. 3 and 4 are the most satisfactory evidence. If the buildings are purchased complete the evidence will be the same as in the case of land.

If the examination is not one of a series of periodical audits, it may be necessary to vouch, as far as possible, all the fixed assets of the company. If at any recent date the company has had an appraisal of its plant made by appraisers of good standing the appraisal may be taken as a starting point and subsequent additions vouched with original bills. If no such appraisal has been made the most convenient procedure is to make first a schedule of the account as it appears in the ledger, noting posting pages, etc., for convenience in finding the original entries; then refer to the original entries and make sub-schedules, finally vouching the sub-schedules with invoices. These schedules may appear as below:

Machinery per ledger

1912	Jan.	Voucher record	page 18	$ 1,123.00
	Feb.	do	29	9,800.00
	Mar.	do	42	62.00
	"	Cash	122	100.00
				$11,085.00

Sub-schedule—Machinery

Voucher Record—p. 18		(Details from bills)
Cincinnati Mill Co.	$1,100.00	Radial drill 14 spindle
Apex Fire Extinguisher Co.	23.00	1 doz. hand extinguishers
	$1,123.00	

In vouching items several years old the auditor must be reasonable in his demands for vouchers.

If bills can not be obtained look at the canceled cheques. If much depreciation has been written off the importance of items is correspondingly decreased. Thus, if 10% per annum be provided as a reserve, assets purchased eight years ago stand at only one-fifth of their original cost.

Although a firm may wish to strain a point in stating the value of its plant, it is not very likely that preparations therefor would have been made several years ago, especially if the accounts for the last two or three years have been properly treated in this respect.

There are certain classes of capital expenditures that are not usually provided with a depreciation reserve, but are reduced each year by deducting from the asset account the amount of depreciation. This includes office furniture, fixtures, costumes, scenery, properties, etc., in theatres and moving picture studios, small tools and other assets that consist of a large number of small items with frequent replacements and frequent destruction of individual items. In such cases the auditor should see that the net value from year to year increases only according to the extension of the business, if an extension occurs.

If expenditures are made in another part of the country for furniture, etc., and the original bills are kept at the distant office—the home office putting the expenditures on the books on the basis of reports from the branches—the auditor may accept such entries for a limited amount of furniture, etc., but not for capital expenditures of more substantial character. The amount of furniture, fixtures, etc., that can be passed on the basis of branch reports is to be decided according to circumstances in each case. Thus, any moving picture rental branch in a city of 250,000 people must purchase $1,000 to $2,000 of furniture, fixtures, machines, etc. Out of this sum perhaps $500 to $1,000 may be represented by machines and typewriters shipped from the head office. The balance may be passed by the auditor without vouchers other than branch reports.

Checking Inventories

As to prices:

In case of merchandise manufactured by the client the prices should be checked or tested with the cost accounts. The methods used in making up the cost accounts should be examined and noted on schedules. If the cost accounts are so kept as to correspond in total with general ledger figures the examination of method used need not be so exhaustive as in cases where the costs are made up each independently, without attempting to balance total costs with ledger totals.

In any case the cost per unit of material should be verified with original bills, care being taken to see that trade discounts are deducted from nominal prices.

Where the inventory consists of purchased merchandise, the auditor should examine original bills, using the precautions spoken of before in respect of trade discounts, and should look out for old, damaged or obsolete stock. He should particularly guard against the inclusion as regular goods of imperfect merchandise returned by customers. Such merchandise was presumably deficient or it would not have been returned. Cases have been met where returned merchandise was taken into inventory at the price charged to the customer, the return appearing in the purchases as though bought in the regular way.

It is sometimes necessary to take into consideration, when checking the inventory, not only the current market prices but any commitments which the firm may have either to buy or to sell merchandise.

This is particularly important if the merchandise is brought from foreign countries, and especially where, as in the case of silk, bristles and some other Oriental merchandise, the supply is irregular and concentrated in certain parts of the year. The inventories of raw silk importers invariably need careful attention in this respect.

Merchandise in public warehouses often forms a large part of the inventories of importers. The merchandise so held is almost always in original packages bearing marks and numbers affixed at the place of origin.

The public warehouses furnish monthly to clients lists of packages on hand, giving bale and case marks and numbers, and usually the name of the vessels on which the goods arrived. When such merchandise is included in the inventory the auditor should trace the goods by package marks to original invoices, ascertaining that the goods have been taken up as purchases and that the inventory values agree with invoiced values.

Such merchandise frequently remains in the name of a banker holding a draft against it, and only by checking the inventory against the purchases taken up is it possible to ascertain that the goods really belong to the client. Some houses only take up such purchases when the lots are broken; others take them up as soon as the merchandise is inspected; still others take up the whole amount as a purchase as soon as they are advised of the arrival, or even of the shipment of the goods. It is evident, then, that an inventory of the merchandise in storage is more than usually subject to error.

Do not allow any inventory sheets which you have checked to leave your possession until you have taken from them notes of all the figures and other matter that you need for your working papers. Do not give any one the opportunity to change your figures without your knowledge.

As to Amount (Extensions and Footings):

There is a common practice, where inventories are voluminous, of testing inventories by checking all extensions over a certain specified amount —say, all items over $50.00.

As a test to prevent overvaluation, that is not without value; but if it be intended to find the true value, as it should be, the test should cover a suitable proportion of small items. An item appearing as one dollar might be an erroneous extension, the correct amount of which was one thousand dollars. Any errors whereby an amount was grossly undervalued would be likely to escape notice if only the large items were checked.

It is seldom necessary, in checking an inventory, to carry the calculation to the last cent. The labor of checking may often be halved, without diminishing the value of the work, by ignoring decimals in the price. This is more particularly so where the number of units is comparatively small. When it is considered that inventory values are nothing more than estimates, supported by cost prices, it is clear that small fractional figures are more or less arbitrary. The time that would be consumed in checking the utmost decimal places can be utilized to greater advantage in covering a larger number of items and in making a more thorough test of prices and methods.

The checking of footings offers little matter for comment. It is not unusual, however, to find individual inventory sheets, through error, included twice in or omitted entirely from the summary.

Making Schedules

Schedules are divided into two general classes: those representing assets and liabilities, corresponding with the balance-sheet, and those representing operations, which should be made to correspond with the profit and loss accounts as made up by the assistant. If the examination follows a previous examination made by the accounting firm for which the assistant is working, each schedule of assets should commence with the balance shown at the last examination. It should then detail all additions, giving sufficient description to satisfy the mind of the senior as to the character of the asset purchased, and should give the name of the supplier from whom purchased.

The schedule should bear at the head the name of the matter to which it refers, the date of the audit and the initials or signature of the assistant doing the work.

Although no specific rule can be given as to the size of the items to be detailed, the assistant should not make long lists of very small items unless he does so for the purpose of showing that petty purchases have been included in asset accounts that might more properly have been charged as expenses. The size of the business and the total amount of assets will be a guide to the minuteness with which the individual items should be detailed.

The asset and liabilities schedules should cover all assets and all liabilities carried on the balance-sheet, except that, if no change has occurred since the last examinatioin, a single sheet setting forth that fact will cover all assets and liabilities in which no change has occurred.

The schedules should be so grouped as to agree with the items appearing on the final balance-sheet. That is to say, if an item appears on the balance-sheet "Machinery and plant," and if the machinery and plant are scattered through the ledger under a dozen different headings, the assistant will make a schedule for each heading and a summary bringing the totals together and showing that they agree with the amount appearing on the balance-sheet. It is desirable also that the schedules should bear notations showing the reserves carried by the company against them.

Many assistants make useless schedules. Before beginning one the assistant should make clear to himself what object he intends to serve in making it. We have seen many cash schedules showing the receipts and disbursements month by month, or even week by week throughout the full period covered by the examination. Such schedules serve no purpose. What is required is a schedule verifying the amount of cash on hand at the date of audit, not a schedule showing all the money that has passed through the bank account during the year. Similarly, we have from time to time seen schedules dealing with accounts receivable and accounts payable in the same manner. Do not pad your papers with useless detail. Do not begin a schedule without first ascertaining that data exist to complete it. In cases of doubt refer to your senior.

Profit and loss schedules are not usually made to cover every item in the profit and loss account. If that account includes ordinary expenses, on which the assistant does not intend to comment, which are not in any way unusual, schedules are not generally needed. In making profit and loss account schedules covering the many operations of the business, it is desirable to show month by month the amounts of sales, purchases, etc., because the distribution of business over several months is frequently a matter of much interest and indicates the course of the business to a greater extent than a simple statement of the amount of business for the full year.

If a salary schedule is prepared, it is more desirable that it should show for one specific period the persons drawing salary and the rates of pay than that it should show the amount drawn each week without giving the names of the persons drawing it. It is frequently required that an auditor submit to the management a list of the salaries paid, especially the salaries of those who are employed in administration of the business.

While it is not necessary to make schedules for every item on the profit and loss account, it is necessary that such schedules as are made should agree exactly with the figures in the profit and loss account. In this respect assistants should note whether the items in their profit and loss account agree exactly with items in the trial balance. If not, they may be made up of a combination of items or by a division of items which appear on the trial balance; and in either case the working papers should give such details that any one taking up the papers at a later date can ascertain the origin of the items in the profit and loss account. If adjustments are made by the accountant in distribution of expenses, they should be shown on any schedules that take up those expenses.

Finally the schedules should be neat and legible and should be on some consistent plan. If one schedule is made with the balance brought forward from the preceding year and the additional items all in the same column with one footing at the bottom, all should be made on the same plan. If, however, one follows the plan of placing the balances carried forward in a column to the right, and then totaling the additions month by month or for the full period in an adjoining column, carrying the total out into the same column as the amount brought forward from the preceding audit, that plan should be followed throughout. The second plan is the better one, inasmuch as it shows the amount of additions for the period without making any computations. Remember that the schedules must be intelligible to another person without the aid of the memory of the assistant who prepared them.

When an audit is taken up for the first time, it is the practice to go back as far as may be necessary to obtain justification for the principal assets and fixed properties carried on the books. Where, however, the work of the auditor has been preceded by a consistent audit of another auditing firm, the question arises as to how far the certified figures of the preceding auditor may be accepted. This is clearly dependent on the character and standing of the preceding auditors, and assistants should in all cases refer either to the senior in charge or to a partner the question as to what may be accepted on the certificate of other auditors. If the question be referred to the senior, he will doubtless refer it to a partner.

CHAPTER VII

FINISHING THE WORK

There are certain parts of the work which assistants often overlook. In closing the work on any matter, assistants should first see that all the work set forth in the programme, or list of work to be done, is completed and is duly signed for by the assistants doing the work. They should see that there are no loose papers left in the envelope containing the working papers, and should see that all bank certificates are pasted to the schedules to which they refer and not put loosely among the papers. They should see that all schedules are headed with the name of the matter; that they are properly totaled; that they are in agreement with the exhibits to which they refer; and that they are signed by the assistants who made them out.

Where assistants are instructed to make tests of any work they should state exactly of what the test has consisted. Thus, if cash footings have been tested, the programme should show that the test has been for certain specific months. If footings are to be tested it is not sufficient to say "Tested one-third of the footings." The work programme should show what period was covered by the test in question. Where tests of general ledger footings are prescribed, the assistant should not include in his test any of the accounts that have been analyzed for the purpose of making schedules or indeed for any other purpose, since the analysis covers the correctness of the ledger footings. If, however, in analyzing ledger accounts there are many small items, together with a number of much larger ones, and if the account is of such a character that the assistant extracts the larger items and takes the smaller items in a single figure representing the balance of the account as shown by the ledger, the footings should be checked at the time the schedule is made up. This may occur in merchandise accounts where small charges for freight or expressage are posted to the same account as the merchandise purchased. This occurs frequently in the accounts of raw silk dealers. In analyzing these accounts it is sometimes sufficient to extract the purchases and returns of purchases and to assume that the balance of the account is made up of such items as telegrams, cables, freight, etc., noting, however, that the total of these items is reasonably small.

Use of Percentages in Reports

The accountant frequently can make his work much more valuable to the client by giving intelligent statements of percentage costs, percentages of expenses, etc. In making these percentages it is too often the custom to waste a great amount of time in carrying out the calculation to distant decimal places. It is seldom that any client obtains any benefit from decimal figures in a percentage statement beyond the first figure past the decimal point. Where figures are carried to two and three decimal places an impression is created in the client's mind that the auditor is nothing more than a computing machine. The same remarks apply where costs per day or per ton or by any other unit are made up. In each case the figures should only be carried to a point that is really significant. The percentages must be balanced—no excuse can be accepted for failure to do this.

CHAPTER VIII

Liabilities Not Taken Up

To some extent the auditor is in the hands of the client in the matter of liabilities not taken up. He cannot ever certify positively that there are no liabilities which do not appear in the accounts. There are certain things, however, that he can do: first, he can ascertain that all the expenses which accrue regularly, such as telephone, gas, electric current, rent, etc., are taken up; second, if the stock accounts of the client are well kept he can see that the purchases of stock that have gone into the stock records, and either appear in the inventory or in the sales, are duly taken up on the books; third, he can examine the records and vouchers for the period between the nominal date of audit and the actual date of the examination to ascertain whether any items that should have appeared as purchases or expenses prior to the date of audit have been omitted and taken up in the period after the date of audit. Finally, he can obtain from the officers of the company their certificates to the effect that all liabilities known to them have been placed on the books before closing. The auditor should not depend upon this certificate as taking the place of an examination by himself of such evidence as can be obtained. The certificate is not a proof—it is merely a protection to the auditor and should be obtained only after the auditor has used all possible means of discovering for himself what liabilities were omitted. If the auditor is making a balance-sheet for a client whose accounts have not been examined in the past, he should also check the amount of liability indirectly by ascertaining first the amount of capital actually put into the business and, second, the amount of profit earned. From these two he will form a clear idea of the amount of capital and surplus that should exist. If large liabilities have been omitted this indirect method would indicate the fact—it would not, however, distinguish between an omission of liabilities and an over-valuation of assets. On finding that a company shows a net worth that the original investment plus normal profits does not justify, the auditor is placed on his guard and should immediately take steps to ascertain in what respect the assets are over-valued or the liabilities omitted.

Exhibits (For the Client)

Exhibits should be in the mind of the auditor from the time the work is begun. The exhibits, with the accompanying report, are all that the client gets and to the client represent the whole work.

It is not sufficient to give a balance-sheet and profit and loss account with a schedule for each item. That plan is followed by mechanical and really incompetent (although highly trained) accountants. Clients have their books, and one might as well tell them to look at their books as give schedules that amount practically to a copy of the books.

If the auditor look over any prior reports, he may get a clear idea of what exhibits can with advantage be made. If no prior reports exist, it is well to look over the ground, ascertain what reports are made by the client's staff and think over the question: "What exhibits could be prepared from these books, without unreasonable expenditure of time, that would give help to the client?"

Do not make exhibits which are mere detailed lists of assets or liabilities appearing on the balance-sheet. If a list of customers' accounts receivable, for instance, is of value because the client wishes to have it for frequent reference, give it and note on it the overdue and bad accounts. If such a list contains many bad accounts, give it for your own protection; but do not give it simply to make up a bulky report; do not give it because you feel bound to support your figures on the balance-sheet by giving details. If the client will not trust your report without such detail, he should employ a bookkeeper, not a public accountant.

Constant watching of the several items as they pass under your notice during the detail checking will give you the knowledge needed to decide what should be reported to the client.

See that your exhibits form a consistent whole. Your profit and loss balance should be so handled that the client can trace it to the surplus account and to the balance-sheet; subordinate exhibits should correspond with the general profit and loss account; the same matter should not appear in two exhibits; the exhibits should be compact; they should be arranged conveniently for comparison of accounts at varying dates; petty items should be grouped; long exhibits, running over more than one page, should be avoided, either by dividing into sections, or by grouping items of similar character, with details in sub-schedules.

Remember that exhibits are to be typed—not by you but by a typewriter who is, presumably, not an accountant—who will follow copy exactly—who is not permitted to correct your errors. Your exhibits should be clearly written, in ink, without interlineations, with spaces arranged substantially as they should appear in the final account.

When the exhibits relating to operations are finished they should be such as to show amount of business done, by classes, deducting from all items any contra amounts, such as the return of goods sold or purchased; cost of merchandise manufactured, including cost by units if possible; cost of goods sold; gross profit (which may generally be described as profit before charging selling and administrative expenses) and classified statement of expenses.

The balance-sheet should show the assets and liabilities—classified in a few carefully chosen groups, but not divided into a multitude of classes between which the distinction is immaterial. In addition to the balance-sheet there may be schedules, not of all assets but of any assets the details of which appear to be of much interest, especially if large changes have been made during the period since last report.

On all these exhibits figures showing comparative results for corresponding earlier periods are valuable; and for this reason it is convenient to follow the form of exhibits used at prior audits.

If, however, the forms used were susceptible of material improvement the auditor should make the improvement, and can, with a little additional work, so arrange earlier accounts as to obtain corresponding figures for the amended form of accounts.

The comparative figures may take the form of percentage figures. The sales may be treated as the standard (100%) and the cost and several classes of expense stated in terms of their percentage of the amount of sales. In manufacturing cost accounts the total cost of manufacture may be the standard (100%) and the items of cost percentages of the whole cost.

In some cases, where the product is uniform, as in the case of malt liquor, positive moving picture film, steel, etc., the cost may be stated in cost per unit (per barrel, per foot, per ton, etc.).

Always, however, the general profit and loss account may show with advantage not only the comparative percentage figures but also the comparative total amounts of the principal items, since percentages throw no light on the amount of increase or decrease in business done.

Here, again, the knowledge gained during detail checking should have given the auditor a knowledge of the causes of increases or decreases of business, and it is precisely that knowledge which the client needs. The client's own staff has also handled the details, of course; but the auditor is expected to bring to a consideration of the details of the business a mind that is not only better trained than those of ordinary employees, but is equipped with a knowledge of what occurs in many other enterprises.

CHAPTER IX

Conduct of Juniors in Clients' Offices

The junior accountant should at all times appreciate that he is regarded by the client as a representative of the firm by which he is employed and is under obligation to uphold the dignity and honor of that firm. It follows that he should not express to the client any opinion as to the work in hand or the conduct of the client's office without first consulting with his own senior. Junior accountants may be approached from time to time by officers of the company seeking information regarding the progress of the work, conditions in the client's office, or an opinion on accounting or even on legal matters. In such instances it is best to refer the officers to the senior in charge of the work unless the questions are of a very elementary character.

The junior accountant should make a point of arriving at the client's office at the hour appointed for the opening of business and not leave until the closing hour. The regulation time for meals should not be exceeded, except in special circumstances and by permission of the senior in charge.

It often happens that both the accountants and the office staff simultaneously require the use of the same record—in such cases the accountant should endeavor to interrupt the regular work of the office as little as he possibly can. This, together with care in replacing vouchers, canceled cheques, etc., will be found to have a very marked influence upon the impression which the client will form of the staff; and the treatment that will be accorded the accountant assigned to the work will reflect this impression.

Junior accountants should appreciate that they are assigned to clients' offices for the purpose of conducting an examination and not with a view to discussing extraneous matters with the employees. We have known of cases where clients have objected to paying their bills in full on the ground that men assigned to the work had spent a portion of their time in discussing baseball, or because assistants have not put in the full number of hours which they should have done under arrangements with the clients.

Abuses Discovered in Clients' Offices

The junior accountant from the position which he holds is often in a better position than anyone else to unearth petty abuses. Often clients' employees will tell junior accountants of petty graft and other bad features of office management when they would hesitate to speak on the matter to a senior. In such cases the junior should immediately take up with his own senior anything of this nature that comes to his attention. It is highly undesirable that it should be taken up with the client before it has had proper consideration, as the information may be untrue or malicious, and actions that may to some employees in an office appear improper may be justified and may be specifically authorized by the client. In fact, it may be considered a general rule that no report of anything undesirable in a client's office be made to the client until it has been considered by the senior and investigated so that the accountant may not humiliate himself by bringing forward unfounded complaints.

The remarks above, covering the method of dealing with bad conditions in the offices of clients, apply also to what may appear to the junior to be defects in the accounting system or forms. It frequently happens that a junior does not thoroughly understand why certain accounts are kept in certain ways—indeed it is not altogether unknown that seniors have been ignorant of the reason for keeping certain accounts—and when accounts and forms have been introduced by the best minds of an accounting firm, it is highly undesirable that a junior who does not fully understand them, and perhaps does not know who introduced them, should volunteer criticisms to the client.

At the same time a junior should never fail to bring to the attention of his senior anything of any kind connected with his work which may appear to him to be unsatisfactory, and if he has a strong impression that improvements are in order and his senior does not agree with him, he should leave a record of his opinion among the working papers to be referred to if the matter ever arises for discussion again.

CHAPTER X

Checking the Correctness of the Assistant's Own Work

By far the greatest safeguard that the assistant can use in checking the correctness of his own work is to balance his own figures. Thus, if analyses of receipts and expenditures are to be made, the cash balance at the beginning and end, together with the total of receipts and expenditures, should be made to balance. If statements are made of cost per unit for the items entering into cost of goods, it should be ascertained that the total of the items agrees with the total cost per unit.

If the accountant states, for instance, that a loss of $50,000 has been incurred for certain given reasons and states also the amount per unit lost for each of these reasons, he should ascertain that the total of the losses per unit which he gives, multiplied by the total number of units, agrees substantially with the $50,000 in question.

Sometimes it is necessary that figures be submitted which cannot be balanced in this way. When this is done, the assistant is on dangerous ground and should never, in any circumstances, submit such figures without having them carefully checked by another person. If he is instructed to submit figures in such circumstances that he cannot obtain a check by another, he should, for his own protection, note the fact on the working papers.

It is a general rule with accounting firms that errors are excusable, but that failure to obtain such checking as will detect the errors before they get into the accounts is not excusable.

Utilizing Waiting Time

If your firm is considerate enough to keep you under pay while waiting, do not repay it by spending the waiting time in loud conversation or conduct not calculated to preserve the decorum of the office. Good firms have accounting libraries, to which you will have access if you care to learn something. For your own sake, as well as for the sake of the firm by which you are employed, spend at least a part of your waiting time in reading such matter as the library affords and such as will help you in your general work.

Systematic Check-Marks

Although there is a certain amount of uniformity in the practice of most auditing concerns, the differences in practice are sufficient to interfere seriously with work if all the employees of any given accounting firm do not follow exactly one plan of marking. It is especially necessary where periodical audits are made that the marks should be such as to indicate without any doubt to each assistant what work has been done by his predecessor. The assistant must not think that the strictest adherence to the prescribed system of marks is unnecessary, nor should he think that any system which may appeal to him as being better can be adopted without serious injury. The perfection of the system is not nearly so important as uniformity; and the assistant should make up his mind from the beginning to follow to the last detail the scheme of marking adopted by the office in which he works. When this is done the work can be dropped at any point by one assistant and taken up by the next without misunderstanding or loss of time.

The scheme of marks in use in one office is set forth fully in an exhibit attached hereto. It will be understood from examination of this exhibit that each assistant uses from time to time a mark which is his own personal distinguishing mark. Where the personal check-mark is used, it is intended to enable either the senior in charge or another assistant to determine exactly who did the work, and the assistant should endeavor to devise some neat and quickly made mark that cannot be mistaken for a figure, and clearly distinguishes itself from the marks of other assistants. This seems to be a matter of some difficulty as the size of the mark is small and the number of assistants very great, but a surprisingly large variety of marks may be devised with a little thought.

In the examples on the following page the dagger represents the individual check-mark and tells who checked the posting or the footing. The letter C on the cash payments sheet shows that the canceled cheque has been inspected. The V over the item in the voucher record shows that the purchase has been vouched with the original invoice of the supplier.

Page 13

Voucher Record

			Furniture				
Berger Mfg. Co.	7 Filing cases	116	† 112 ✓				
			112				

Page 15

Ledger Furniture

1917						
Apl 1	To Filing cases Berger Co.	VR 13	† 112 -			

Page 22

Cash payments (cheques)

1917			
Apl 1	Berger Mfg. Co.	116	† 112 ✓ - C

Page 116

Ledger Berger Mfg. Co.

1917				1917			
Apl. 1	To Cheque	22	† 112 -	Apl. 1	By goods	13	† 112 -

CHAPTER XI

Care of Papers

The junior accountant should remember that he will be held responsible for the safe-keeping of the working papers in his charge. It is not only necessary that they should be legible, orderly and complete, but it is also necessary that they should be kept strictly in the care of the auditors, especially during the period of their preparation.

It has happened repeatedly within the experience of every large firm that junior accountants have left their papers open to the inspection of others while the auditors are away.

The auditor should not forget that he is in a confidential capacity; that many facts and documents are given to him that are not accessible to all the employees of the client for whom he may be working; that he himself should note his own conclusions in cases where it is highly undesirable for the employees of the client to know what those conclusions are; that he may note on his papers presence or absence of vouchers, etc., crossing them out from time to time as they may be found; and that if he leaves his papers open to the inspection of others during his absence any interested employee can cross out items of missing vouchers, etc., which may cover irregularities.

Much of the consideration extended by clients to auditors is based on the knowledge that the auditors are trusted with confidential information and the auditors should not weaken that respect by letting their working papers get out of their care. It is, however, permissible in many cases for the auditor, if he can lock his papers in his audit bag, to leave them for safe-keeping in the client's safe; but in no case should they be left in the care of any employee or officer unless they are securely locked up.

The foregoing caution is not based to any extent on theoretical considerations or imaginary dangers. Difficulties have arisen on every one of the above points within the experience of the writers and some of them have caused irritation on the part of the clients and humiliation to the men doing the work.

The auditor, however, should be careful to cause no unnecessary unpleasantness and should not attempt to give an air of mystery to his work. It is a matter for common sense. Keep your papers locked up and do not show any more of them than necessary.

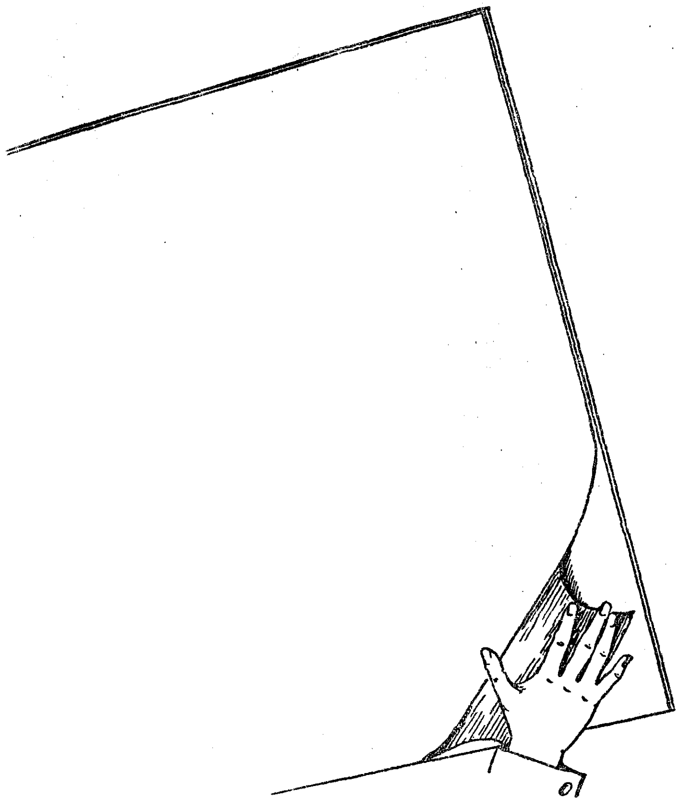
CARE OF CLIENTS' BOOKS AND RECORDS

Most bookkeepers do and all should take some pride in the physical condition of their books and records. They live with them. Some of their books remain in daily use for years. Defacements of such books constitute a daily annoyance over the period of use and an unsavory remembrance forever.

The auditor, however, sees them infrequently, and does not suffer very much discomfort of mind from the fact that blots, thumb-marks, etc., exist. This must not lead the auditor to take any less care of the condition of the books than is taken by the ordinary custodian thereof. Defacement of a client's books is a grave offense, and indicates in the auditor lack of experience and serious carelessness of the interests of the client.

Auditors usually make their checkmarks with red ink. Heavy marks with thick dirty ink, not cleared with blotting paper, cause marks to appear on the opposite page and smear upon touch with a moist hand even when treated with blotting paper. Use a hard fine pen, clean thin ink, and mark as lightly as possible, without shading. Such marks do not smear or blot even if not thoroughly dried with blotting paper.

Speed in finding the pages of the books is necessary, but it must not be attained by using the fingers as shown below:



This results in dirty thumb-marked corners of pages and in a permanent and most unsightly "hump" in the book as a whole. In almost all clients' offices offenders in this respect are regarded as clumsy, dirty, offensive persons. If the culprit be the auditor he will surely earn for himself a reputation for incompetence and untidiness.

Vouchers, also, should be cared for quite as well by the auditor as they are by the clients. Vouchers often are folded, sometimes several sheets being folded together. The auditor must open them for examination. Let him fold them again with the docket outside, as neatly as when taken from the files, and afterward replace them in the filing cases decently and in order.

Never take away, even temporarily, any documents or vouchers belonging to the client. If the client should furnish copies of documents for the files of the auditor see that the client marks them "for the auditor." Where this is not done it is not unusual for careless clients to accuse auditors of taking away papers that should not have been taken. Generally it is most satisfactory for the auditor to make his own copies of records when they are needed.

The auditor often has to criticise the filing of papers, neatness of books and accessibility of records. His criticisms will be received more favorably if his own work has tended to an improvement rather than to a deterioration of conditions.

Another kind of defacement, especially to the cashbook and voucher register, results from the careless use of the auditor's rubber stamp and pad. If the pad be freely inked the cheques or vouchers when freshly stamped will print back upon any paper surface with which they are in contact. Hence, it is necessary to avoid closing any book leaving stamped cheques or vouchers temporarily between the leaves. When errors are found the auditor frequently is asked to give the desired form of correcting entry. Do not do this in such a hurry as to risk the necessity of further correction. See that you understand the case fully before dictating a correction. Any credit you might receive for quick thinking would be a poor return for the risk you run in hastily formulating corrections.