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The Quarterly

VOLUME 6, NUMBER 2

JUNE, 1960



TOUCHE,
ROSS,
BAILEY,
& SMART

D. H. CRAMER, *Editor*

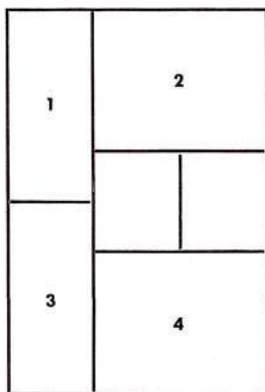
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BAILEY,
& SMART

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Firm policies and procedures on technical matters are stated in our technical manuals, bulletins and letters. The opinions expressed herein on technical subjects represent those of the authors and are not to be construed as setting forth new or amending present firm policies and procedures.



HENRY E. MENDES
Advisory Partner

A NATIVE NEW YORKER, Henry Mendes joined Touche-Niven in February, 1910 after having completed the course in accountancy and business administration at Pace Institute the previous month. He helped open the St. Louis Office in 1915 and managed it until 1919 when he moved to Cleveland to open and manage the office in that city. Admitted to partnership in January 1919, he returned to the New York Office in the fall of 1920.

During his active years, Mr. Mendes held office and served on many committees of The New York State Society of CPAs and the American Institute of Accountants, including the Institute's Board of Examiners for the past ten years 1936-1946, the last four as chairman. He was president of the New York State CPA Board of Examiners from 1925 to 1930.

Mr. Mendes has always been keenly interested in civic affairs. He was chairman of the town of Mamaroneck (N.Y.) War Council during World War II; treasurer, then president, of the Larchmont Community Chest for several terms. He has also served as the chairman of the accountants' division for many fund-raising activities in New York City including Catholic Charities, National War Fund, American Red Cross and National Foundation for Infantile Paralysis.

Since his retirement to advisory partner status in 1952, Henry Mendes makes his home in Larchmont, New York where he and his family have lived for the past thirty-two years.



THE OPEN DOOR

EVER since the first issue of *The Quarterly* came off the press I have been reading *The Open Door* with more than casual interest. Now that I am asked to contribute something myself, it is perhaps fitting for me to jot down some of my impressions covering a span of 50 years with our firm. What follows is intended primarily for young men aspiring to make their mark as professional accountants, or for those who have the matter under consideration.

In reviewing previous issues of *The Quarterly*, I find the following ideas have not been stressed if, indeed, mentioned at all; yet I feel they are very important.

Adaptability—To qualify as a public accountant, one must be a rather unusual personality with several more or less conflicting characteristics. He should be an independent thinker, imaginative, inquiring, analytical, alert, at least skeptical if not downright suspicious. He should have diplomacy coupled with a bulldog determination, be a better-than-average salesman (in disguise), should have an aptitude for figures and a well-developed ability to resolve conclusions to understandable, succinct language. And of course be a gentleman, courteous and ethical at all times!

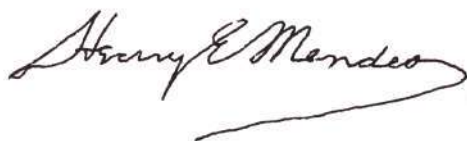
Availability—The best advice that can be given to a young public

accountant is to make it clear at the outset that this profession is no sinecure. One must be prepared to respond willingly to inordinate demands—long hours of work for days if not weeks on end; prolonged traveling about the country if he is proficient in a special area; the necessity of moving his family on short notice, etc. These inconveniences are, however, generally rewarding, since willingness to be available may determine whether or not one advances.

As a young man I always tried to hold myself ready to gain experience in many important businesses throughout the country during my first five years on the staff. Others had the same opportunities but either turned them down or did not take advantage of all offers because they did not care to leave town or were prevented by some adverse situation at home. This inevitably worked against their progress.

Stability—Perhaps it is natural for most young men to feel that they are not progressing quickly enough in the first two or three years. Some even accept the flattering offers of industry and leave their chosen profession. In a word, they lack *patience*—refuse to *stay put!* Personally, I have turned down many fine offers through my long career and today I am happy that I did. After all, there is an independence and prestige in being a public accountant that cannot usually be found in business or industry.

Through the years I have observed that the great majority of men who left the profession prematurely to accept what appeared to be lucrative and important executive positions were sorry later. Not a few have drifted back to the ranks of independent accountants after having lost, in some cases, years of valuable experience.

A handwritten signature in cursive script, reading "Henry E. Mendes". The signature is written in dark ink and features a long, sweeping horizontal line that extends to the right, underlining the name.

CONSISTENCY, COMPARABILITY, and DISCLOSURE

by Edward P. Tremper
Partner, Seattle

In preparing a set of financial statements and our report thereon, questions constantly arise as to whether the statements are "consistent" with those of the prior year, whether the statements are "comparable" with those of the prior year, and whether there is anything not apparent on the face of the statements which should be "disclosed" in order that the statements as a whole be reasonably informative or, as the SEC puts it, in order that the statements be not misleading.

Actually the three standards are so closely related that it is often difficult for an auditor to distinguish which of them is applicable to a given set of circumstances. Consistency is specifically covered by *Generally Accepted Auditing Standards* as the second reporting standard: "The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period." Comparability and disclosure are covered by the third reporting standard: "Informative disclosures in the financial statements

are to be regarded as reasonably adequate unless otherwise stated in the report."

Disclosure is the broadest of the three standards and comparability is next. Both call for the highest degree of judgment in their application. Inconsistency necessarily causes lack of comparability. Thus consistency is always a matter that must be considered for disclosure and comparability, but there are many situations not involving consistency that require application of the standards of either comparability or disclosure or both.

This article deals with the important aspects of each standard and describes their relationships and the areas where they may be distinguished.

CONSISTENCY

Consistency relates to the application of accounting principles and practices in a consistent manner between years. However, accounting principles and practices are not static, nor are the business activities to which they are applied. In many areas there is a choice of alternative principles or practices, one of which may be appropriate under one set of circumstances while another choice is appropriate under another set. The second reporting standard is not intended to prohibit changes in accounting principles nor is it intended to act as a barrier to progress. There should be no deterrent to changes in accounting principles made in good faith with a view to improvement in reporting.

In considering changes in accounting principles, the Securities and Exchange Commission goes further than does *Generally Accepted Auditing Standards* both as to the application of the principles and the opinion of the auditor regarding the change. Regulation S-X calls for "the opinion of the accountant as to any material changes in accounting principles or practices or method of applying the accounting principles or practices." Thus you will note that S-X not only encompasses practices as well as principles but also includes the method of applying them.

Further, S-X requires the expression of the accountants' opinion regarding the change, which requirement is not covered specifically by generally accepted auditing standards. The best practice, however, does call for the expression of approval, acceptance, or disapproval by the accountant. It is well to remember that disapproval of a change would ordinarily call for a qualification, and might, if the amounts

were relatively material, require denial of an opinion on the financial statements taken as a whole.

The materiality of changes in accounting principles should be viewed with both the short- and the long-range effects in mind. Thus, even though the effect in the year of change is not significant, if it is likely to have substantial effects in a later period, or the area involved is important, the change should be appropriately disclosed.

On first examinations by public accountants it is necessary to apply the second reporting standard except in cases where the statements are being presented to outsiders, in non-comparative form, for the first time. In such cases, consistency has no significance to those unaware of a former principle or practice in use. This exception ordinarily applies to smaller companies that previously have not had auditors or have not issued statements to the public. In all other cases, applicable auditing procedures should be applied to the prior year to enable the accountant to express an opinion on consistency.

When a report is made on a balance sheet only, the consistency standard nevertheless applies because the examination necessarily involves an examination of the earnings statement, and also because any change in accounting principle or practice usually would have an effect on the balance sheet itself.

Because of the specific reference in the second reporting standard to consistency with the preceding period, a question arises in cases where financial statements are presented for two or more years. Does the standard require consistency with the year preceding those reported on? If the report covers two years, say 1959 and 1960, any change in accounting principles in the earlier year (1959) from that just preceding it (1958) has already been covered in the prior year's (1959) report. Thus the standard applies only to changes between the two years being reported on. When the report covers more than two years, it takes on some characteristics of a special report and consistency is called for within the period, but not usually in relation to the year prior to those included in the report.

COMPARABILITY

Comparability is an important phase of disclosure and is necessary to make a series of financial statements informative and useful. The

standard always applies where two or more years are reported on, and should be considered in reporting on a single year because of the comparative use that readers may apply. Although changes in accounting principles destroy comparability, there are in addition many cases where comparability is affected by other factors. Before considering these other factors, it should be noted that, although a complete restatement of the prior year or years to disclose the effect of the change may be desirable, useful, or even necessary for comparative purposes, a restatement alone does not cure inconsistency nor satisfy the second reporting standard.

Under the comparability standard, simple changes in account classifications designed to improve statement presentation or more adequately portray changed conditions require a reclassification on a conformed basis for the prior year. A regrouping of accounts on the balance sheet or a change in form in the earnings statement makes comparisons difficult or impossible unless the new grouping or changed form is reflected in the prior year. Comparative statements not conformed one to the other lack usefulness and may even be misleading. When restatements or reclassifications are made, the fact should be disclosed in the statements. Unless the restatement is caused by a change in principle, no reference need be made in the accountants' report.

Comparability may be affected by changes in circumstances or business policy rather than changes in accounting classification or accounting principles. Sometimes such changes are readily apparent. A shift from a cash to a credit sale policy, for instance, probably does not need any other disclosure than that provided by the fact that trade accounts receivable appear on the balance sheet. In other instances separate classification or footnote disclosure is advisable or even necessary to point up the results of the change rather than leave them hidden in omnibus accounts.

For instance, a shift from leasing machinery to customers to outright sale of the same machinery would be disclosed by showing separately revenues from sales and revenues from leasing. In the case of sale of trade accounts receivable, on the other hand, explanation might be difficult except through a footnote.

DISCLOSURE

The third reporting standard contemplates disclosure both in the financial statements and in the accountants' report. The accountants' report must disclose, in the scope section, any failure to apply generally accepted auditing standards. In the event that the financial statements and notes fail to make important disclosures or contain disclosures that are not reasonably adequate, the proper coverage of the matter should be included in the accountants' report.

Disclosure decisions must be made in the light of importance and usefulness of the statements to readers. Disclosure of matters not significant or material serves only to destroy usefulness. Any borderline decisions must be made in the light of the broad disclosure standard. Disclosure of factors not presently material should be made, however, if in the judgment of the auditor they are likely to have importance in the future. Disclosure that might not otherwise be called for may be necessary in presenting comparative statements. Assume that the client acquired during the year a major new subsidiary. The earnings statement for the current year might then need footnote disclosure of the effect of the acquisition on sales and earnings in order not to make it misleading in comparison with the earnings statement of the preceding year.

Disclosure of certain types of post balance sheet events are required by the standard. Under ordinary circumstances, disclosure of a change in accounting principles adopted after the end of the year but before the report is issued is not required because such change will be reported in the following year. However, when it is necessary to disclose a post balance sheet event which is coupled with a change in accounting, the change may require disclosure.

Whenever disclosure is called for, a concise statement of the facts or circumstances should be made. In addition, the effect in dollars is usually of equal importance. In those cases where the effect cannot be precisely determined, every effort should be made to indicate a range. When this is not possible, it is advisable to state the reasons for the inability to assess the monetary effect of the disclosure.

Disclosure is a standard that resists improper changes or those having improper motives because the nature of the change and its effect must be set forth in the financial statements or the accountants'

report or both. The deterrent is effective both as to changes in accounting principles or practices and to changes in form or classification.

The standard of disclosure does not go so far as to require publicizing certain kinds of information that would be detrimental to the client. For example, provision may be made for a claimed liability which the client intends to vigorously oppose and publicity to such a provision might well harm the client's position. As long as reasonable provision is made, disclosure of the amount may serve no useful purpose but might have a detrimental effect on the outcome of the controversy.

* * *

While these three standards are closely related, they can be distinguished, and it is helpful to make distinctions even though cases will arise where all apply. In the broadest sense the standard of disclosure controls, for consistency and comparability are only specific applications of the need to make financial statements useful and informative and the report on them clear. By applying the standards separately to a given set of circumstances, we gain a better understanding of the problem and our opportunity for a sound conclusion is better.

About the author . . .



Edward P. Tremper
Seattle

Born in Seattle, Washington, Edward P. Tremper received his B.B.A. from the University of Washington in 1920 and entered public accounting in the following year. He is very active in professional organizations, particularly the American Institute of Accountants, American Accounting Association, National Association of Cost Accountants and the Washington Society of Certified Public Accountants.

Corporate Reorganizations:

Simple as A B C!

by Herbert M. Paul
New York

Business management is often faced with the problem of whether or not to combine with another corporation which is in a similar, related or complementary field. In today's business climate it is becoming increasingly common for corporations to combine. The audit staff, while not responsible for the tax planning concerning a combination of businesses, should nevertheless be familiar with the various tax problems involved. This article will acquaint the staff man who is not a specialist in taxes with the various basic methods employed and principles involved in such combinations.

The decision to combine one business entity with another is a management decision which involves business considerations. As with many other phases of business, however, the tax consequences are vitally important if not decisive. For our purposes we shall distinguish and consider two classes of combinations: taxable and tax free.

A taxable combination is essentially the purchase of a business entity. For tax purposes this form of combining is considered as a completed and closed transaction. Thus the entire gain is considered as earned in the year of the transaction. The gain recognized is the difference between the tax basis of the property sold and the consideration received. As you can see, the taxable combination is treated the same as a purchase by one individual of stock owned by another.

Frequently the value of a company about to be combined with another has grown so large that tax on the gain involved in a taxable combination would be prohibitive. Accordingly, the usual form of

combining business entities involves a tax-free combination or what is commonly called a tax-free reorganization. Actually, the term "tax-free" is a misnomer: what is really meant is a tax deferral or postponement. That is, the recognition of income is postponed until the property received in the exchange is finally disposed of in a closed and completed taxable transaction.

Tax-free treatment has been provided because of the feeling that certain situations which qualify as tax-free reorganizations do not involve a completed or closed transaction. There has merely been a change in the legal form of the corporations representing the investment, without any real change in the business holdings. The participants in the reorganizations do not wind up with anything more or less than they had before, although the form of their investment has changed. They retain a continuing economic interest in a new and enlarged economic enterprise.

The Internal Revenue Code¹ provides that no gain or loss shall result from specified transactions which qualify as reorganizations under the Code's definition of that term. In particular, no gain or loss is recognized to a shareholder if stock or securities in a corporation which is a party to a reorganization are, in pursuance of a plan of reorganization, exchanged solely for stock or securities in such corporation or in another corporation which is a party to the reorganization. Similarly, no gain or loss is recognized to a corporation which is a party to a reorganization if it exchanges property, in pursuance of a plan of reorganization, solely for stock or securities in another corporation which is a party to a reorganization.

The general rule stated above has one exception. If, in the reorganization, a taxpayer obtains a greater principal amount of securities than he had before the reorganization, then the reorganization is not completely tax-free. The term "securities" refers only to debt and not to stock. Thus a reorganization cannot be used to establish or increase debt due to shareholders and thereby conceal a distribution of profits, which should be treated as a dividend.

As can be seen, the key element of these tax-free transactions is that there be a combining of two corporate enterprises which qualifies as a reorganization. The Internal Revenue Code² specifically describes the various transactions which will be treated as reorganizations for tax purposes. Tax-free treatment is accorded to three specific procedures for combining businesses. The procedures are listed in subsections (a) (1) (A), (B), and (C), and are therefore referred to

(1) Section 354 (applicable to shareholders) and Section 361 (applicable to the reorganized corporations).

(2) Section 368 (a).

as the "A", "B" and "C" reorganizations. It should be noted that the requirements of the Code must be strictly adhered to before the tax-free treatment will be allowed. First, there must be an exchange pursuant to a plan of reorganization. Second, the special treatment will be accorded only to those corporations which qualify as a party to the reorganization or to shareholders who exchange stock of corporations which so qualify. Finally, the transaction must be one of those described by the Code. In addition to the requirements specified in the Code there have grown up, as a result of many court decisions, additional requirements which also must be met.

The "A" reorganization

The simplest type of reorganization is an "A" reorganization. It is a statutory merger or consolidation. A merger is the combining of one corporation into another corporation under the statutes of a particular state or country with the resulting survival of one of the participants; this survivor being the sum of the two participants. In contrast to this, a consolidation is the combining of two existing corporations into a newly formed third corporation. As in a merger, the newly formed corporation is the sum of the two participants.

Although the "A" reorganization is the simplest form from a standpoint of Code requirements, it is not the most commonly used. This is because in dealing with a statutory merger or consolidation, the transaction must be accomplished according to state law, and there are often many practical problems of complying with the legal requirements of the state or states of incorporation of the participants. Also, the right of dissenting stockholders to demand the payment of the fair market value of their stock can be an important factor.

The "B" reorganization

A "B" reorganization contemplates the acquisition by one corporation of control of stock of another corporation solely in exchange for voting stock of such acquiring corporation. This can be described as a stock-for-stock exchange.

There are requirements both as to the stock being acquired and the consideration given for it. The stock being acquired must give the acquiring corporation "control" of the acquired corporation. The term "control," when used in the reorganization sections refers to the

ownership of at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of all other classes of stock of the acquired corporation. This requirement of 80% is higher than the percentage required to consolidate for accounting purposes. The SEC, for example, only requires "more than 50 per cent" control in order to consolidate for financial reporting purposes.

Regulations provide that the total stock owned which makes up the controlling interest need not be acquired in one transaction. A "creeping type" of acquisition is permitted wherein control of a corporation can be obtained over a period of time. The 80% requirement need only be met in regard to the particular acquisition for which tax-free treatment is desired.

In addition, it should be realized that the transaction will only be granted the special treatment if the block of stock which secures the required control is obtained solely for voting stock of the acquiring corporation. No other consideration is permitted. However, there is no prescription as to how much voting stock of the acquiring corporation must be given up. A "creeping type" of acquisition permits the prior acquisitions of stock of the acquired corporation for any property—say cash. Such a prior acquisition for cash is permitted as long as the non-qualifying transaction was independent of the qualifying transaction. If the immediate and previous acquisitions are found to be part of a general plan, then all the transactions will be considered together. If the acquisitions are linked together, then the requirement of acquiring control solely for voting stock of the acquiring corporation will not be met and the transaction will be taxable.

The "C" reorganization

The third type of reorganization used to combine businesses, a "C" reorganization, is a stock-for-assets exchange. Here there is an acquisition by one corporation, in exchange solely for all or part of its voting stock, of substantially all the properties of another corporation. Normally such a reorganization is followed by the liquidation of the transferor corporation and the distribution, tax-free, of the stock of the transferee corporation. The assumption by the acquiring corporation of liabilities of the other corporation is not treated as other consideration given—which would bar treatment as a tax-free reorganization.

It should be noted that although the "C" reorganization and a merger give the same results the "C" reorganization route is the one commonly used.

The statutory definition of a "C" reorganization specifies that "substantially all" of the properties have to be acquired, but nowhere is there found a definition of the term "substantially all." The Treasury Department has taken the position that "substantially all" the properties of a corporation are acquired if 90% or more of the net assets of the particular corporation are acquired. It is understood that when we talk of property, we are referring to the value of the respective properties and not their cost, size, weight or any other method which might be used for describing such properties. The retention of a reasonable amount of assets necessary to meet the obligations of the acquired corporation shall be disregarded in determining if the "substantially all" test is met. However, if assets are retained to pay liabilities and these assets turn out to be in excess of the liabilities, the distribution of such assets will probably be taxed as a dividend.

A variation involving the parent

There is a variation of the above-described third type of exchange which is permitted by the Code. This variation provides that the voting stock to be given up can be that of a corporation which is in control of the acquiring corporation. Such a corporation is commonly referred to as a parent corporation. Thus, the "C" reorganization adopts a consolidation approach: realizing that a parent corporation and its subsidiary should, in certain instances, be viewed as one. A subsidiary corporation can therefore receive properties which are the subject of a reorganization transaction in spite of the fact that the consideration for such properties is paid by its parent corporation, which is a separate legal entity.

In examining the variations just referred to, there is one point which must be carefully observed. Although the stock given up may be that of the corporation or its parent there cannot be any mixing. The stock given up must be that of the corporation *or* its parent and not the stock of the corporation *and* its parent. However, the property to be received in exchange for the stock can go to either the corporation or its subsidiary or subsidiaries, or part to the corporation and part to its subsidiary or subsidiaries.

There is an exception to the "solely for voting stock" requirement of the "C" reorganization. However, it is not often used because usually it will not be advantageous to do so. Thus, the Code provides that other consideration may be given in addition to voting stock and the assumption of liabilities where substantially all the assets of another corporation are being acquired. But in such case, the value of the stock given in consideration must equal at least 80% of the total gross assets of the other corporation. This means that the sum of the liabilities assumed and the consideration other than voting stock cannot exceed 20% of the total consideration given.

Some additional requirements

As mentioned previously, in addition to the aforementioned requirements set forth in the Code, there are certain principles laid down by the courts which must be complied with in order to obtain the desired tax-free treatment. The first such requirement is that of "continuity of interest." This test requires that in order to have a tax-free reorganization, there must be a substantial continuing proprietary interest in the reorganized business by the parties to the reorganization. There is a continuity of interest where a substantial part of the consideration received constitutes an equity interest in the surviving corporation. The substantiality is measured by the value of the assets transferred, rather than by the total value of all assets of the surviving corporation. The requirement of a continuity of interest applies to all reorganizations, but is emphasized in the "B" and "C" types of reorganizations by the Code requirement that the transferor acquire voting stock of the transferee.

The Supreme Court in the case of *Gregory v. Helvering*, 293 U.S. 465 (1935) laid down the now famous "business-purpose" test. In this case, the Court stated that a transaction, even though it literally complied with the requirements of the Code so as to qualify as a tax-free reorganization, will not be considered as such if there is no "business purpose." Thus there is a general requirement that a reorganization in order to be tax-free must have a bona fide corporate business purpose. The transaction cannot merely be a tax avoidance device.

In this regard it should be noted that if there is a substantial valid business purpose, the tax-free nature of a reorganization will not be disregarded merely because there is also incidentally a tax-saving motive. This falls under the general principle of tax law that if there

are two ways of accomplishing a result, the taxpayer is not obligated to choose the method which will result in the greater tax.

The above-mentioned three types of reorganizations are the ones primarily used to combine business entities. However, there are three other types of reorganization prescribed by the Code.³ These latter three are used either to divide an existing corporation or to merely modify the capital structure of an existing corporation.

The fourth type of situation which the Code defines as a reorganization is a transfer by a corporation of all or part of its assets to another corporation, if immediately after the transfer either the transferor, or one or more of its stockholders, or any combination thereof is in control of the corporation to which the assets are transferred. This reorganization is used only as a preliminary step in a corporate separation. Thus it is a method of splitting off a segment of the property of a corporation to a subsidiary corporation, the stock of which will in turn be distributed to shareholders of the parent corporation.

The fifth transaction which the Code defines as a reorganization is a recapitalization. Neither the Code nor the Regulations define the term "recapitalization." Case law, however, has stated that a recapitalization takes place where there is a reshuffling of the capital structure of a corporation. This reshuffling may be either of the debt structure or of the equity interests, or both, of the corporation. The primary reasons for recapitalizations are non-tax considerations. Some of these reasons are as follows:

- (1) Improvement of corporate credit picture by replacing debt financing with equity financing.
- (2) A more flexible capital structure which would, say, provide more attractive stock for corporate employees.

Recapitalizations involving the issuance of debt in exchange for stock resulting in the increase or creation of debt do not qualify as tax-free reorganizations.

A mere change in the identity, form or place of organization, no matter how effected, is classified as the sixth type of reorganization. This would include changing the corporate name or incorporating in a different state.

As mentioned above, the exchange is not tax-free, even though there is a reorganization, unless the exchange is made pursuant to a plan of reorganization. The plan of reorganization must be adopted

(3) Section 368 (a) (1) (D), (E), and (F).

by the proper officials of each of the participating corporations.

The term "party to a reorganization" includes a corporation resulting from a reorganization and both corporations in the case of a reorganization resulting from the acquisition by one corporation of stock or properties of another corporation. The corporation controlling the acquiring corporation is also a party to the reorganization when the stock of such controlling corporation is used to acquire assets of the acquired corporation. Also, a corporation remains a party to the reorganization although it transfers all or part of the assets acquired to a controlled subsidiary.

Every corporate party to a reorganization must file as part of its tax return for the taxable year in which the reorganization occurred, a duly certified copy of the Plan of Reorganization and a complete statement of all important facts in connection with the reorganization and the non-recognition of gain. All taxpayers who receive stock, securities, or other property in a tax-free exchange which is part of a reorganization, must attach a similar statement to their tax return. In addition to the information which must be supplied as part of the tax returns, each of the taxpayers involved must keep permanent records showing pertinent data regarding both the stock or securities given up and any stock, securities, other property or money received.

Although it is hoped that the above presentation makes reorganizations appear to be simple matters, the contrary is actually the truth. Great care must be taken in setting up a transaction to qualify as a reorganization and in determining its tax consequences. The safest course of action to pursue in making sure of the tax-free nature of a transaction is to secure a specific ruling in advance from the Commissioner of Internal Revenue stating the tax consequences of the proposed transactions. Such a ruling will be respected by the Internal Revenue Service as long as the completed transaction is substantially in accord with the facts stated in the ruling request.



Herbert M. Paul, New York

Now completing work for an LL.M. at New York University in the field of taxation, Mr. Paul also has the following degrees: B.B.A. from the City College of New York, 1952; LL.B. from Harvard University, 1955; and M.B.A. from New York University in 1956. He joined our staff in 1957.

OLD RECORDS NEVER DIE—

THEY'RE JUST FILED AWAY

Here is a workable retirement
plan for those paper records.

by John N. Bell
Dayton

Records management is not a subject that stirs men's souls. It does not have the romantic flavor of "Selective Inventory Management," "Profitability Accounting" or "Electronic Data Processing." Yet firms that have a records management program are enthusiastic about it as a real cost-cutter.

The term *records management* is defined here as the organization for control, storage and timely destruction of all business records. This article presents an over-all view of the pertinent points which should be considered in designing a records management program and some suggested steps to carry it out.

Paper records have a regular life cycle—birth, working life, retirement and death. They are costly at every stage. Cost estimates of preparing a business letter range from \$1.50 to \$2.00—add to this the costs of handling and storage (up to \$300 per four-drawer file per year). Based on national averages, a Dayton client estimates that paper creation and storage costs them roughly \$7 million annually, a figure equal to about half their tax bill in 1959.

There are several well-recognized symptoms of a records management problem. Requisitions for more filing cabinets, requests for additional clerical personnel, poor filing efficiency and poor housekeep-

ing are a few. In effect, there are too many retired records that should be dead ones.

What Records to Keep

What records to keep in retirement is a function of what questions are going to *need answering* in the future. To assure an answer to every future question all records should be kept permanently. If we rule out this alternative as impractical, we can approach a practical solution by asking what types of questions have needed answering in the past; then we can modify these requirements by estimating future needs. I emphasize—*need answering*. The president's 1955 Christmas card list may or may not be a necessary record requirement. A record should be kept only with the idea that it will be important some time in the future.

Records retained should tell a complete story. For example, the complete history of a disbursement is described by the purchase request, purchase order, vendor's invoice, receiving report, voucher copy of the check and cancelled check. A similar analysis can be made in other functional areas such as payroll, personnel, and engineering. The objective is to group records by the function they serve and wherever possible to save only one copy of each. Also I think it is logical to keep all records in a particular functional category the same length of time. In the example above, all purchase requests, purchase orders, vendors' invoices, receiving reports, voucher copies of checks and cancelled checks pertaining to a particular period of time should be destroyed together.

Storage

Retained records that have only occasional reference value should be stored outside high-cost office working areas in a dry and evenly heated place. Disorganized records kept where they will deteriorate rapidly are of little value. Transfer files or specially made paperboard boxes are good containers for this purpose.

To the extent possible, files in storage should be subdivided so that related records (time cards, cancelled checks, etc.) may be kept together. Each drawer or carton should contain records that are to be disposed of at the same time. These should be cataloged to facilitate referencing if a particular record is needed—a 3 x 5 card file showing box number, contents and location is sufficient. A charge-out system is also recommended to insure that borrowed records are returned.

Labels on drawers describing the contents can be of different colors and keyed to destruction dates; when the housecleaning is done, it is a simple process to select all "green drawers" for destruction. These are small points but real timesavers.

Microfilming, from a record retention viewpoint, is a controversial subject. Miniaturization saves space but also costs money, roughly one to two cents per image. If records are to be stored less than ten years and a low cost storage area is available, microfilming is usually not justified. Indexing material so that it can be found easily on microfilm is often a tedious and costly job. Also, the legal status of microfilmed records versus original documents is not entirely clear cut. Microfilm has not always been held a legal substitute for originals.

Retention Schedules

Modern business practice generates many paper records which are of diminishing value as time passes. The purpose of retention schedules is to provide a systematic means of quickly purging records that are no longer useful. The retention time for a particular record is a function of the statutory requirements of various governmental agencies, applicable statutes of limitation and internal usefulness to the business.

Records which are under governmental regulation should be kept for at least the minimum time specified by applicable laws. Payroll records subject to the Federal Wage-Hour law are an example. However, records need not always be kept for a period corresponding to the statute of limitation affecting them. The calculated risk of destroying supporting records before the statutory limitation has expired is frequently warranted.

Consider this situation. A mill supply wholesaler finds that 75% of all records are supporting evidence for:

- 1—disbursements to vendors (purchase orders, vendors' invoices, cancelled checks, etc.).
- 2—sales to customers (customers' purchase orders, record copies of invoices, bills of lading and remittance advices).

In this business, if there is no inquiry about a particular disbursement or sales transaction within three months, chances are there will never be any. From an internal usefulness viewpoint, these records could be destroyed after the annual audit even though the statute of limitation on open contracts in Ohio, for example, is six years.

For contrast consider the problem of a job shop producing relatively

few high-cost industrial presses which will be in the field 20 years or more and which are sold under complicated financial agreements. This business would require that detail engineering, cost and legal records be kept over the useful lives of these presses.

In many cases, tax considerations are the limiting factor in disposing of records. Assuming the taxpayer has submitted returns which are substantially correct, the normal period of review by taxing authorities is about four years. In any event questionable items on returns will be recognized and necessary supporting records can be saved as long as any investigation is open.

Because of the many variables involved, there are no pat rules for establishing retention schedules; each instance should be considered individually. Canned retention schedules, as distributed by office equipment companies and firms specializing in records management, are often not applicable because they only reflect statutory requirements and statutes of limitations; or they are a survey of the actual practices of a sample group of companies. In the first case, the internal usefulness to a particular business is not considered. In the second, the actual retention periods suggested by the sample of companies may not be the best. I think these canned schedules are conservative. The times quoted are too long for many manufacturing applications.

"Birth Control"

The greatest cost savings result from the elimination of paper records. The costs of preparation, movement, storage and disposal are eliminated. Forms analysis and control is the largest potential cost saving area in a comprehensive records management program. This aspect of the program revolves around office systems and procedures. For our present purposes let's recognize this potential and pass on.

Getting Underway

A records management program should be established with the intention that it will operate continuously. From the beginning, one person should be responsible for the program and have the authority to carry it out. If this is done the client can handle much of the detail work and gain valuable experience during the formulation of the program.

The over-all problem should be attacked on two fronts: by eliminating useless paper already accumulated in files, and by establishing a system to prevent a similar accumulation in the future.

The best way I know to get the feel for a records management problem is to actually walk through the major records storage areas asking these questions:

- 1—Approximately how many cubic feet of records are maintained?
- 2—Do office working areas appear cluttered with files?
- 3—Are there semi-active record storage facilities?
- 4—What effect does the nature of the business have on record requirements?
- 5—Do a few kinds of records require most of the file space?

Typical answers to these questions are:

- 1—The company maintains roughly a 10-year supply of old records. This figure is based on two rules of thumb. Manufacturing businesses generate about one cubic foot of records per year per employee. About half of all records generated are retained. The rest are distributed outside the firm.
- 2—Office working areas usually have more than two years' records in "current" files.
- 3—Semi-active record storage consists of some dilapidated unlabeled boxes "... in the corner of the warehouse down by the river ... the river overflowed last spring."
- 4—As previously noted, record requirements of particular businesses vary according to their estimated future need for historical information.
- 5—Generally speaking, relatively few functional categories account for the majority of all records in files. Disbursements and sales records, including correspondence, are prime candidates for initial analysis.

The next step after the initial walk-through analysis is to set retention times for those functional record categories which account for the majority of filing space. The principles outlined previously should provide a guide to accomplish this phase of the work.

The firm's legal counsel should review the proposed retention sched-

ule to assure conformity with statutory requirements and to challenge any calculated risks to be taken in areas where statutes of limitation apply.

Low activity records should be transferred to semi-active storage "... down in the warehouse ..." but above the water line!

During the first stage of the program, it is frequently worthwhile to keep score of the amount of paper destroyed. Reductions of 25-40% in the volume of records maintained are not unusual. Management can understand this kind of result and it provides a potent argument for the continuation of the program.

Notice that we are working backwards in the life cycle, reducing the volume of retired records to a minimum; then attacking the working records area. In effect, we are looking for retired records in disguise. Some people have the impression that if a record is dated in the current year it is a working record. Yet on January 2 they are quite willing to throw, or more accurately, file away records dated in the previous December. The useful life of a record can vary in time from almost zero to infinity. Retention schedules should reflect this fact.

If a thorough job is done in the beginning stages of the program—retention schedules prepared, outdated records destroyed, current files purged of non-current material, low activity records moved to a low cost storage area—people become intimate with the paperwork system. They begin to notice weaknesses themselves and make good recommendations for change.

Then ultimately someone asks: Did we *ever* need all this paper? Nothing promotes change and "birth control" like a questioning attitude.



John N. Bell

Dayton

Born in Cincinnati, Ohio, Mr. Bell has a B.S. degree in Mechanical Engineering from Youngstown University, an M.S. in Industrial Administration from Carnegie Institute of Technology, and a degree in Liberal Arts from the Krogerup Folk School, Copenhagen, Denmark. Mr. Bell joined Touche, Ross, Bailey & Smart in 1958 and is a member of the management services staff.

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New Educational Director for Touche, Ross, Bailey & Smart Is Announced

Our new Educational Director is Curtis Verschoor. He will administer the firm's training programs in accounting and auditing and will assist in developing training activities in tax and management services.

Born in Grand Rapids, Michigan Mr. Verschoor received his MBA from the School of Business Administration, University of Michigan, in 1951. He worked for Arthur Andersen & Co. during 1952-53 and served in the Army Audit Agency. Mr. Verschoor joined our Boston Office in 1955, later transferred to Detroit.

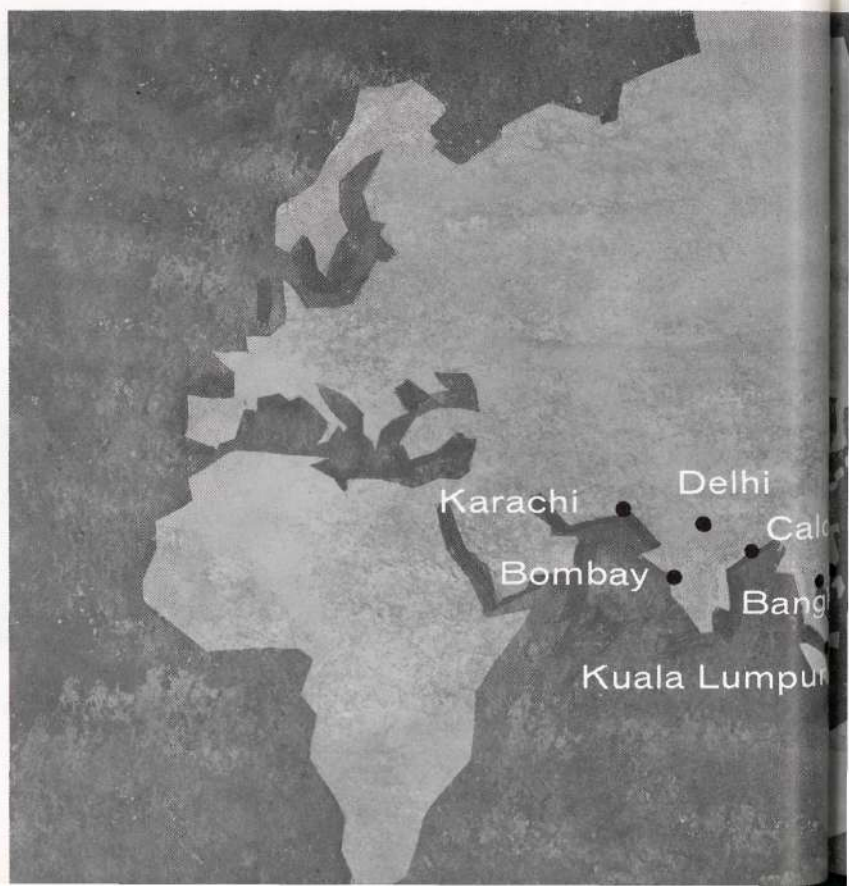
A holder of an Elijah Watt Sells Award, Curtis Verschoor has taught accounting classes at Wayne State University and the University of Michigan Extension Service.

New Countries . . .

with New Problems

I HAVE recently returned from a trip to India and the Far East sponsored by the Detroit Board of Commerce. It was a Trade and Good Will Tour and covered in a business way the larger cities of India and of several other Far Eastern countries including Thailand, Malaya, Hongkong and Japan. Since the trip had the encouragement and cooperation of our State Department, in each city we had a meet-

MAP SHOWS CITIES VISITED BY GEORGE RIN



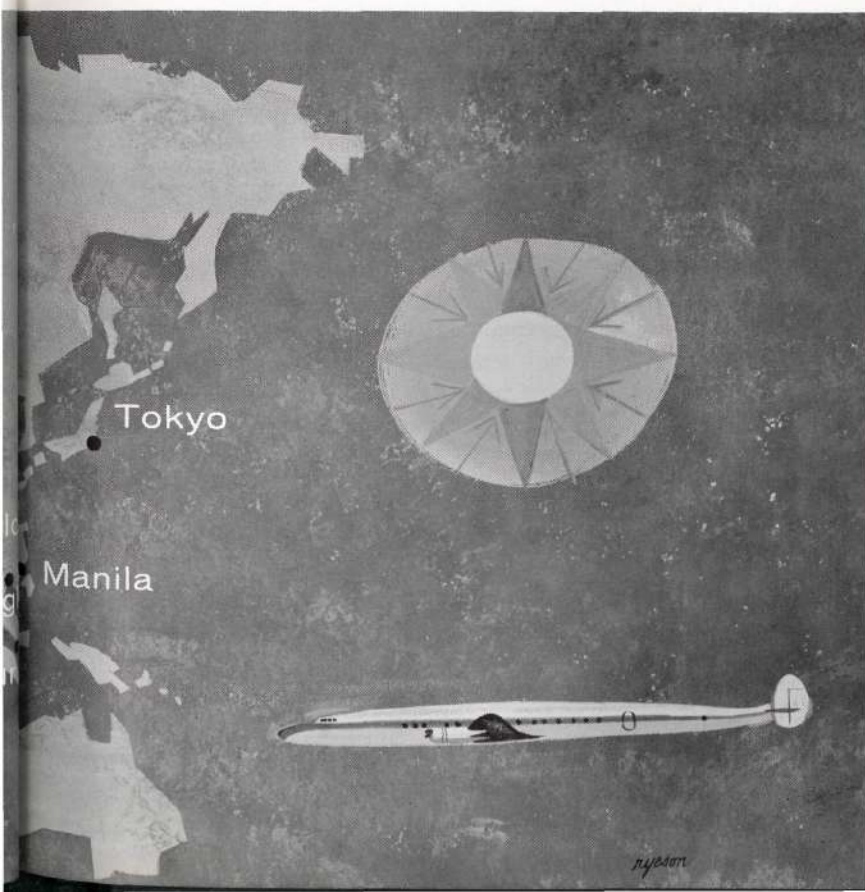
A visit to India, Pakistan, Thailand and other countries of the Far East

by George D. Bailey

ing with the ranking State Department officials and often a reception by one of them, as well as meetings and dinners with business groups and government officials of the country. We spent much more time seeing and visiting with people than looking at tourist sights and scenery, though in almost every country we had a chance to drive away from the cities and see how the rural people lived.

Many impressions and a good deal of reliable information came

E RING DETROIT BOARD OF COMMERCE TOUR.



out of the visits and some of those may be interesting to the people in our organization.

Leaving out Hongkong, Agra, and Banaras which were purely sight-seeing stops and of course leaving out Honolulu which was a two-day recuperation visit, the trip covered major cities in countries as follows: Karachi in Pakistan; Bombay, Delhi, and Calcutta in India; Bangkok in Thailand, Kuala Lumpur in Malaya, Manila in the Philippines, and Tokyo in Japan.

A fresh start after the war

In one major respect all these countries have one characteristic in common. They are essentially new countries, not from the standpoint of people or national backgrounds but from the standpoint of their governmental and economic base, in some cases even social aspects. Each of them got a fresh start after the war or as a result of independence following the war. Even Japan had its political, social, and economic aspects changed as a result of the war and the subsequent American occupation, and came out from under occupation with a fresh start. All these countries are trying out democracy more or less after the Anglo-Saxon model and all are experiencing some stresses and strains in the working of that political system.

In Pakistan, for instance, the difficulties of obtaining a disciplined and effective government became too great and the Army took over. Fortunately President Mohammed Ayub Khan, the strong man with dictatorial powers which he has voluntarily limited, is sincere in working toward a new democratic constitution. As I understand it, however, this will be more what is known as a guided democracy—with rather strong but arbitrary powers at the top but with a very large area of democratic self-government and increasing democratic responsibility over the years. The constitution is not yet finally developed but is being watched carefully all over the world as perhaps indicating a way for a new people not yet ready for complete self-government to move forward into a complete democracy.

Pakistan . . . product of partition

Pakistan, of course, became a new country in 1947 at the time of the partition of India when the British gave up control. Religious feeling ran very high and Pakistan resulted from the attempt to sep-

arate some 84,000,000 Moslems from 350,000,000 Hindus and related groups. Partition inescapably caused a great deal of dislocation, shifting of population, and much bitterness, with loss of life running into millions on both sides. Pakistan literally had to start from nothing while India got most of the old civil servants who had been trained in the service of the British. To add to its troubles, over half of the people live under very crowded conditions in East Pakistan, which is over 1,000 miles removed from West Pakistan where the capital will be, and where crowded conditions are not so apparent.

The partition, so-called, had a curious effect on accounting. In Karachi the chief practicing accountants were Indian and these left Karachi for India. That vacuum was filled to a certain extent by Moslems who had been in India and left for Pakistan. The leading accountant in Karachi had to give up all his practice in Bombay and start over again in Karachi after 1947, but he found a vacuum in Karachi and now has a very sizable staff and a large practice.

Democracy meets a test in India

India is an older country than Pakistan and has not had the same difficulty in building a functioning democratic government, but Nehru's Congress Party has over 80% of the legislative representation and about the same amount in popular vote. With such a majority the administration has no effective opposition and is therefore able to put into effect an austerity program to help bridge the early years.

Both India and Pakistan have a very low standard of living, and it is generally recognized as essential to raise this standard sufficiently from year to year or from Five-Year Plan to Five-Year Plan so the great majority of people can see improvement in their living. It is also agreed that there must be continuous and substantial progress if the people are to be satisfied with a democratic government. More than one of our ambassadors pointed out that India could be a test of whether it is possible to increase standards of living from one generation to another by democratic means or whether the examples of China and Russia, let us say, might not discredit the democratic process as being too slow and too little. Apparently people of one generation are willing to sacrifice a great deal in the way of freedom if only they can be sure their children will have the benefits of such sacrifice. This is the danger in too little progress.

To get an increase in the standard of living, it is believed that there

must be large-scale basic improvements such as irrigation, power, roads and transportation, communication, basic manufacturing, etc. Tax rates are very high but the countries are so poor that such developments can not take place fast enough without outside help, and outside help and outside capital are not easy to get. There are Five-Year Plans in both Pakistan and India to try to provide the greatest possible use of local facilities for basic development and for minimum dependence upon others. Hence the emphasis on export, the control of luxury manufacture and imports, and the great need for more manufacturing of the tools and materials needed for these basic improvements. This also explains the decision of the government to take over responsibility for additions in some larger lines such as steel mills and, of course, dams and power. This suggests a bias to socialism on the part of Nehru and his administration.

The auto industry in India

The manufacture of motor cars, of which there was some by American and English companies, has been so restricted to Indian content and limited to trucks and very small cars that Ford and General Motors have withdrawn and Chrysler operates only with respect to trucks and on a license basis, in effect exporting to India only know-how. India does badly need new productive plants in many products and many areas, but at the same time seems to be determined that these plants will be locally controlled. However the general attitude of the people in our group and of others with whom we talked is that it is probably just as well for foreign business to come into the country in partnership with nationals rather than on a sole ownership or dominant basis.

Tax rates in all the new countries are very high but no more serious than some of the older countries. Generally speaking, in India taxes may be said to follow somewhat our own pattern with a substantial corporate tax rate approximating 50% with a tax on undistributed income, a high tax on dividends in the hands of the recipient, and with individual tax rates mounting up quickly and the high rate starting at a much lower figure. However, the average income is so low that the income tax touches only a relatively small percentage of the people; and I was told that bookkeeping is so primitive that the income tax also touches only a small percentage of commercial and business enterprises.

In addition India has two unusual taxes. One is an expenditures tax in which the government assesses a graduated tax on individuals based upon the amount of expenditures over a fixed minimum. The other is a so-called wealth tax which is graduated up from 1% and paid annually on the basis of a man's total worth above a minimum exemption. These last two are not working out very well, I was told, and the Indian Parliament was discussing them while we were there.

Businessmen talk about high taxes but seem to recognize them as necessary in the present state of affairs in India. On the other hand, there are provisos for special concessions with respect to distribution of earnings and to foreign capital. It is necessary and advisable to make individual agreements with the government for foreign capital, especially on the ability to withdraw capital and earnings and on the participation of Indian nationals; as a matter of fact permission must be obtained to come in at all because of the concentration toward the manufacture of articles that are most needed right now.

Reciprocal tax arrangements are being developed with other countries but basically foreign income earned in India appears to have the choice of a fairly high rate or of putting the entire income from India subject to the Indian rate as if it were the total income of the individual or corporation. However, even with the high tax rates, business seems to be profitable enough to permit Indian businessmen to constantly invest in new projects. As a result there are a number of separate groups of business men who seem to be, one way or another, in almost every new enterprise of any size.

Foreign investors should be careful

The businessmen in our group were very much intrigued with the very great need of India for foreign participation and with the opportunity for good profits; but it was apparent that investment should be made only after careful discussion with the government and the selection of proper native partners. I was struck by the fact that the chartered accountants of India have been so close to the development and enforcement of tax laws and government regulations that foreign investors might be well advised to consult a reputable accountant as almost the first step in any investment plan for India.

I have gone into some detail with respect to India because it is

typical of the new countries. Its great need for immediately raising the standard of living and its great shortage of foreign capital merely accentuate the problems.

In Malaya and Thailand there is no shortage of foreign exchange and while there is need for capital to help expand industries already functioning for many projects, the money seems to be available through channels developed through the World Bank or lending institutions sponsored by associated governments or from private investors. Individual American companies are going into these two countries in oil and mining and undoubtedly American capital for the local manufacture of some consumer goods will occur.

Both of these countries seem well established. Thailand is the one exception in this whole area, in that it is not a new country; but it is caught up in the same economic and capital requirements as the others. It still has not worked out its democratic form of government. However, taxes on business in these two countries are as high as in India and Pakistan.

The Philippines, of course, are in effect a new country. Like many others it got its complete independence so quickly after the war that the people were not ready for it and the stresses and strains of the



George D. Bailey

Advisory Partner

Some of Mr. Bailey's recent activities include chairmanship of a new AICPA committee on Professional statistics; chairmanship of a special United Community Services Committee in Detroit on the study of services to the blind; and the role of presiding officer at the March 21 meeting of the Economics Club of Detroit, when he introduced speaker J. S. Seidman, president of AICPA.

—Denver says Thanks!—

. . . to the many people who temporarily transferred to Denver to help out over the tax season. These include Donald Wiese of the Executive Office and Charles Bate, John Gale, George English, Jim Loebbecke, and Bernard Tesoriere of the San Francisco Office.

democratic form of government are showing up. Many laws have been passed with respect to foreigners doing business in the Philippines, foreign accountants have been practically driven out, and at the moment new foreign capital is not being encouraged though there are, of course, hundreds of American and British firms that were in the Philippines before the war and came back immediately thereafter.

In Japan the growth of the economy has been so phenomenal that foreign capital is not really needed and foreign know-how is not essential as it is in many other new countries. Foreign companies are not being excluded but every one must make its agreement with the government and must have substantial ownership by Japanese nationals. Even well established companies that were on a 50-50 basis are being pressured to increase the percentage to 60 or 66% Japanese. We were impressed, however, by the evidences of maturity in the Japanese businessmen, especially in their attempt to stamp out the pirating of American products on a cheap basis and to raise the quality of the goods exported to the American market. In both of these efforts they are succeeding. No longer is the stamp "Made in Japan" a symbol of poor quality. Instead in many products the quality is as high as anywhere in the world.

Two new positions announced

Joseph R. Levee, Supervisor-Tax in New York, is the new International Assistant-Tax in the Executive Office. He has been with us since 1955, specializing in tax work. Mr. Levee has information on foreign tax laws in countries where our clients operate. He should be used for consultation with all offices and with clients on their foreign tax problems.



James I. Johnston of the Washington Office has been appointed Administrative Assistant to the Executive Partner-Audit. Mr. Johnston's efforts will be directed primarily toward technical matters affecting both our United States and international practice. He will be concerned with audit post reviews, technical liaison with Associated Firms, and preparing an International Newsletter.



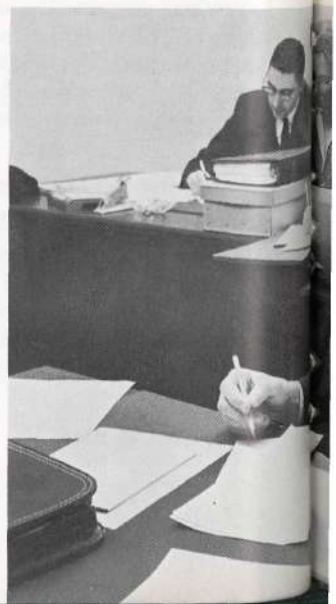


Joe Buchan, who developed the game last February, puts more data on chart to show what demand is estimated to be for the following month.

Three Men Try A New Business Game



Some elaborate business game, but Barbara Dow gets quick results. photo: Dave Burchfield figure b Wiese ponders. At right, the game



Dave Burchfield, Jim Reiss and Don Wiese were first to try Management Sciences' new business game, which takes four hours to play and covers twelve months in the life of a business. Players are given sets of work sheets, particularly the manufacturing schedule and the raw material order of a hypothetical plant. They operate within capacity restrictions and order raw materials, taking into consideration inventory size and the danger of running out of stock. Then the effect on profit is computed and a forecast of demand for the following month is made.

Players discover the influence product mix might have on profit and the usefulness of linear programming in solving product mix problems. The idea came from a conversation between Sanford Ackerman, Richard Trueman and Joseph Buchan, all of Management Sciences. The developmental work was done by Mr. Buchan.

The game has now been played many times, most recently in Robert Beyer's AMA seminar in Profitability Accounting.



Management Sciences' Jim Reiss studies next move. His competitors came from audit and tax groups.

played with electronic computers, skills with calculator, left. Center Barbara Dow calculates, Don figures a point with Joe Buchan.



WHAT'S NEW?

Presenting a quarterly roundup of
current developments in the firm.

Antonio Galaz reports that our Mexico City Office recently undertook an engagement requiring Mayhew work. He tells us that Gail Brown, who went down to give assistance, was very helpful both in obtaining the engagement and in the subsequent work. This was Mexico's first use of the Mayhew system.

* * *

The San Francisco Office expanded recently, taking over the entire eleventh floor of the Shell Oil Building for a total of two floors.

* * *

Wayne Mayhew recently completed the revised edition of the Cost Accounting Manual for Fruit and Vegetable Cannerys, and copies will be available soon.

* * *

Mr. M. Anspach of our Belgian associated firm has been elected a member of the International Fiscal Association which has its headquarters in The Hague, Holland.

* * *

Profitability Accounting Is Big Success at AMA Seminar

So many people are interested in Profitability Accounting that a seminar given in New York May 9-13 by Robert Beyer, chairman, and Donald Jennings, co-chairman, was oversubscribed. Now three more seminars are scheduled: October at Saranac Lake; next March in Chicago and June 1961 in New York. Besides Messrs. Beyer and Jennings, the 55 participants heard Merlin H. Birk, Controller of Bucyrus-Erie; Professor R. Lee Brummet, University of Michigan; and Lyle S. Cline, Controller of American Metal Climax. Joseph F. Buchan and Robert G. Stevens of our firm also took part in the seminar.

*Touche, Ross, Bailey
& Smart in Holland*

Front door of our Netherlands associate at No. 11 Jan van Goyenkade Street in Amsterdam carries two nameplates (see cover). Nederlandse Accountants Mattschap also has offices in Almelo, Breda, Rotterdam and The Hague.



Senior partners of our Netherlands associate are shown seated around the conference table below. From left to right they are Mr. D. J. Brandenburg of Breda; Mr. C. Th. Stijl of Rotterdam; Mr. A. Oosthoek of Amsterdam; Mr. H. G. Hootsen of Almelo; Mr. F. Haarbosch of Amsterdam; and Mr. J. W. Sasburg of The Hague. They were photographed at the Amsterdam Office shown in photo above.



Introducing SANS — Our New Numbering System

Management Sciences has developed a practical account-numbering method which will keep customer accounts simultaneously in alphabetic and numeric sequence, even with very large increases in the size of the original customer account files. It is equally useful for hand, mechanical, punched card or fully electronic systems and is applicable to any size file. The use of punched cards makes the physical file inexpensive and adaptable for other uses, such as address duplication. Assignment of numbers is simple and fast, and can be done accurately by unskilled personnel.

Called SANS (for Simultaneous Alpha-Numeric Sequencing) it works with blocks of 1000 numbers which are divided into two segments. Most of the block is used for assigning numbers to a small group of original accounts (perhaps seven), allowing a large interval between original account numbers. Each new account is subsequently inserted in sequence halfway between two old accounts. The remaining smaller portion of the block numbers is reserved for overflow. Eventually a new account falls alphabetically between two consecutive numbers and is assigned an overflow number.

ASSIGNMENT OF NUMBERS TO ADDITIONAL ACCOUNTS							
ACCOUNT NUMBER	ORIGINAL ACCOUNTS	ORDER IN WHICH NEW ACCOUNTS ARRIVE					
		1	2	3	4	5	6
4008	BAADE						
4009							
4010	BAAS						
4011	BABALA						
4012	BABBAGE						
4013							
4014	BABCOCK						
4015	BABICH						
4016	BABISH						

*NO SPACE LEFT, MUST GO TO OVERFLOW AREA.

What's new?

TRB&S will analyze the distribution of names in a community, predict future shifts in name distribution intensities (more Smiths, fewer Joneses), plan a numbering system to suit these circumstances and report its probable life to our client.

Previous numbering systems have failed largely because of difficulty in manipulation or inflexibility. In some systems almost all new accounts have to go into an overflow file.

For detailed information see Management Sciences Report No. 1-9, Customer Account Numbering with SANS: O'Brien, Sherwood and Trueman.

* * *

How to Audit a Business Game

One of the teaching devices used in the Graduate School of Industrial Administration at Carnegie Institute of Technology is a business game played by six student teams each year. Each team represents the management of a hypothetical company in the soap business.

Now one of these teams made a lot of money and decided to register on the New York Stock Exchange . . . all, of course, hypothetically. This requires an audit, so Professor William Cooper asked our Pittsburgh Office to help out by making as realistic an examination as possible under the circumstances. Accordingly Justin Davidson reviewed the student firm's balance sheet, operating statements, and the system of internal control. His regretful conclusion: internal control was inadequate, with sloppy methods in some areas, therefore TRB&S could not give even a hypothetical opinion on the financial statements without drastically extending the original scope of the audit.

This refusal by a public accounting firm was quite an eye-opener to the student managers, Mr. Davidson reports; apparently they had thought they were doing very well. As a result they agreed to extend the scope of the audit and also agreed to spend some of the firm's hypothetical money to improve the present system of internal control.

What's new?

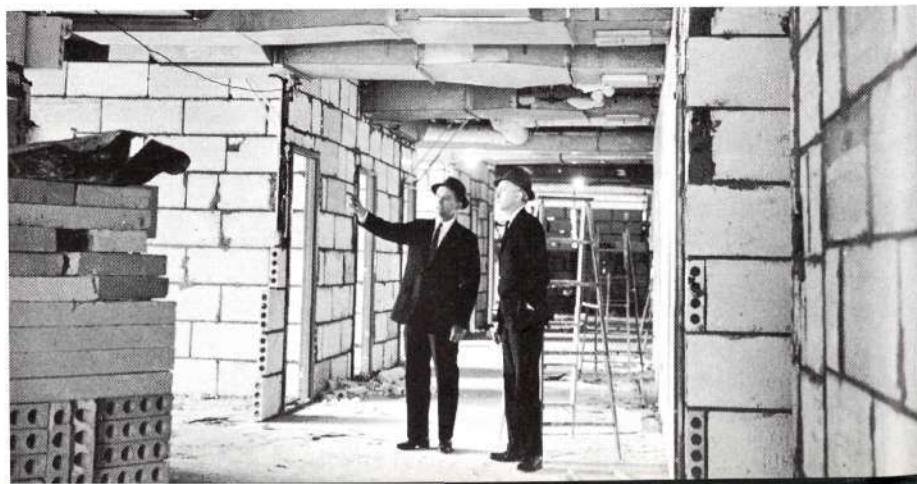


Looking over the new home of our Executive and New York Offices are Willard Clanton, left, and Anthony Daly of New York. Due to a work stoppage, the Executive Office move is now likely to be about August 1.



New York partner's office overlooks Brooklyn Bridge, East River.

Anthony Daly points out work on Executive Office corridor.



What's new?

Here's what TRB&S has published for internal distribution since the beginning of the year:

AUDIT

For Information Only letters were published on the following subjects.

Company Law and Practice Abroad
Booklet on "Business Analysis and Profit Evaluation" Available
Bankers Scored on Audit Policy
French Law on Auditing
Stockholder Activities at Corporation Meetings
Electronic Swindle Laid to Broker
Deferred Income Taxes: SEC Release of February 29, 1960
The Looting of H. L. Green
Bank Confirmations—Do's and Don't's
Accountant's Report on Additional Information

The following **Audit Technical Letters** were issued.

TL NO. 61 (Revised) Cold Review of SEC Filings
TL NO. 91 Tax Department Memorandum, a Necessary Part of Audit Working Papers
TL NO. 92 Appearance Before Board of Directors and at Annual Meetings of Stockholders

For information on these letters write to Hans J. Shield, Executive Office.

MANAGEMENT SCIENCES

The following **Management Sciences Reports** were published during the last quarter. Numbers 2, 3, 6 and 7 contain material which was presented at the Management Science Seminar in June 1959.

- No. 1-2 *History of Logical and Computing Machinery and Current Developments: Hydeman, Ackerman, Laux and Pollmar*
- No. 1-3 *Computer Logic, General Programming and Automatic Programming: Hydeman, Ackerman, Laux and Pollmar*
- No. 1-4 *An Installation of SIM (Selective Inventory Management): Radell and Fleisher*
- No. 1-5 *Evaluation of Three SIM Installations: Radell and Mills*

What's new?

- No. 1-6 *Computer Survey (Description of Twenty Computers):* Hydeman, Ackerman, Laux and Pollmar
- No. 1-7 *Six Case Studies of Computer Systems:* Hydeman, Ackerman, Laux and Pollmar
- No. 1-8 *An Interim Report on Optical Character Recognition:* Sherwood
- No. 1-9 *Customer Account Numbering with SANS (Simultaneous Alphabetic and Numeric Sequencing):* O'Brien, Sherwood and Trueman

Management Sciences also issues pocket pamphlets which they call Slim Jims, 4 x 7 inch booklets written for distribution to non-Management Sciences people in the firm. They are designed to digest the essential elements of a subject in non-technical language. Three of them are now available.

The Operations Research Department . . . a Dozen Applications and a Half Dozen Techniques

The Computer Systems Department—Some Services and Areas for Applications

A Progress Report on Selective Inventory Management: Crane and Radell

MANAGEMENT SERVICES

The following Management Services Reference Article was distributed in March.

- 3-13 *Analysis of Computer Proposals for Service Parts Inventories* by Donald Wood, Detroit

For information on any of the publications listed above write to Joseph F. Buchan, Executive Office.

TAX

Two new bulletins have been added to the Tax Research File.
January 1960—*Entertainment Expenses and Employees' Expense Accounts.*

March 1960—*Interest on Form 7004 Underpayments.*

Write Donald C. Wiese, Executive Office, for information on these.

What's new?

Joseph F. Buchan has established a Technical Training & Communication Department within the Management Sciences Division. He will coordinate research and development efforts and technical training seminars, review content and literary quality of technical writings, and familiarize all firm personnel with the uses of new management systems and techniques.



Eighteen more CPAs— and one Registered Professional Engineer

Chicago

John Brown
*Royal Cox
John Gessert
Donald Peterson

Kansas City

Herman Woodcock
Charles F. Barnett, Jr.

Management Sciences

*David L. Fleisher
Gerald Demirjian became a
Registered Professional Engineer.

Minneapolis

*Allan E. Fonfara
*Arlen H. Missling
*Delwyn E. Olson
Robert D. McWaine

New York

John C. Emmert
*Robert M. Furman
Eugene K. Malewicz
*Thomas I. Marcossin
*Passed on first attempt.

New York cont'd.

Ronald Segel, who passed all four parts of the examination in Massachusetts last November on his first attempt, as previously reported, has just been awarded the silver medal by the Massachusetts State Society of CPAs. (He was second only to the gold medal award winner). Only five percent of those sitting for the first time passed this examination.

Portland

Robert Archibald, John Streibick, and Robert Cowan all passed the November 1959 CPA examination. To celebrate the event the successful candidates were hosts at a dinner party for staff members at the Multnomah Club.

We Present . . .

OUR NEW ASSOCIATES

Chicago—Sylvia Swedberg recently joined the Chicago Office audit staff. She is a graduate of Valparaiso University and has had several years' experience in the public accounting field.

Dayton—Dorothy Van Zant has joined the report typing staff.

Denver—Charles Bucy has recently moved from Washington, D.C. to join the audit staff. He is a graduate of Georgetown University Law Center. On February 1, Lauren Strassburg became a member of the audit staff after graduating from the University of Colorado. Elizabeth Algrim has been the office bookkeeper since she joined the firm in March.

Detroit—Laurence A. Solomonson joined the audit staff in April following his graduation from Michigan State University with an M.B.A. degree. Jane Gray joined the Detroit Office as a secretary in March.

Executive Office—The firm accounting department has two new associates. Constance Clausen, who came in March, is assistant to Laurine Newquist. Miss Clausen was formerly on our New York Office staff. Jo Doty joined this department in April.

Houston—Coming to our staff in June is Robert R. Bolding, who will complete his education at the University of Texas at that time. He attended Temple Junior College and expects to receive his B.B.A. from the University of Texas in June.

Also coming to our staff from the University of Texas this month is Max Simon, who received his B.B.A. He also attended Arizona University from 1955 to 1957.

Management Sciences—Dennis G. Price, graduate of the London School of Economics, has joined the Management Sciences staff. Mr. Price was

formerly employed by Chrysler Corporation as a System & Procedures Analyst. Grace Guerin joined us in May as a secretary.

Minneapolis—New employees here starting in June are Monte Anderson, Jon Radsek, and Donald Etnier from the University of Minnesota, Robert Smallman from the Massachusetts Institute of Technology, and Gerald McGrath from St. Thomas College. Kenneth Stocke returns to our staff in June after two years in the army, where he was stationed at the White Sand Missile Range in New Mexico.

Portland—The Portland Office has two additions to the staff: Kelly Roberts graduated from the University of Idaho in January, while Vern Bowlby came to us after his graduation from the University of Oregon.

San Francisco—Theodore E. Wentz has joined the Management Services staff. He holds an M.B.A. from the University of Buffalo, where he was an accounting instructor.

Crista Carlson is the new secretary at the San Jose Office replacing Fern Credeur who resigned recently.

Washington, D.C.—N. Alfred Pasternak joined the staff here in March. Mr. Pasternak graduated from Colgate University in 1957 with an A.B. degree, then received an M.B.A. from Columbia University Graduate School of Business Administration in 1959. He subsequently served in the Air National Guard and was employed by the U.S. General Accounting Office.

Seattle—John F. Clearman, a graduate of the University of Washington, joined us on April 25.

TRB&S IN SERVICE

Chicago—Thomas Bintinger and Marshall Strey have received their call to the colors, Mr. Bintinger for six months and Mr. Strey for two years.

John True stopped in for a brief visit during the Easter holiday while on leave from Fort Meade, Maryland.

Stanley Holdeman writes from Fort Benjamin Harrison, Indiana, that he is presently attending the finance school there, taking a course in financial management and integrated accounting.

Dayton—Shelton J. Sweress left recently for a six-month tour of duty with the U.S. Army Finance Corps at Fort Ben Harrison, Indiana. Wayne Uber has returned from two years' active service with the U.S. Army Personnel Finance Division of the Adjutant General's Corps at Fort Knox, Kentucky.

Denver—Edward Coffman left the Denver Office in April to spend the next two years working as auditor for the Air Force at Harlingen A.F.B. in Texas.

Detroit—Robert J. Smith has rejoined the audit staff after a three-year tour of duty as a lieutenant in the Air Force. Mr. Smith spent most of his time at Mitchell Air Force Base on Long Island, N.Y., in audit work for the Auditor General.

Kansas City—Robert M. Mehlinger left March 19 for a nine-week training program in the Missouri Air National Guard. He will be stationed at Lackland Air Force Base in San Antonio.

Portland—Richard Hall returned to the office after a six-month tour of duty as a second lieutenant in the Army. Mr. Hall spent most of his time at Fort Benning, Georgia, but ended up close to home at Fort Lewis, Washington.

Milwaukee—William Bonfield has returned to the Milwaukee Office staff after completing a two-year tour of duty with the U.S. Army. Mr. Bonfield was stationed in Germany.

Minneapolis—John Tuohy leaves May 15 for Ft. Leonard Wood for six months of service in the Army.

San Francisco—Anthony L. Andrade, who for six months in 1957 was attached to the San Jose staff, returned from service in April and is now on the San Francisco audit staff.

George Young and Gerald Severeid have entered the service, each for a six-month tour of duty.

CHANGES OF SCENE

Dallas—William J. Morris of the audit staff is now devoting full time to management services.

Denver—Richard G. Shuma has transferred from Pittsburgh to assume the duties of supervisor in the Denver Office. John Kadlecsek of San Francisco and Don Sinsabaugh of Dayton have both recently joined the Denver audit staff.

Detroit—E. Wendell Breland Jr. and David V. Burchfield have transferred from the audit staff to management services, while David J. Vander Broek transferred from the audit staff to the tax staff.

Linda Hemmingsen, formerly a secretary in the Executive Office, has transferred to a secretarial position in the tax department.

Second National Management Sciences Seminar Held in Detroit

The second annual national Management Sciences Seminar was held in Detroit during the week of May 23 through 27 at the Whittier Hotel. Various portions of the Seminar were attended by all members of the Division of Management Sciences and by various members of other offices throughout the country.

**Future issues of The Quarterly . . .
will feature articles on**

- Banking Services
- The Japanese Business Man
- How to Audit Credit Unions

WITH THE ALUMNI

Atlanta—After six years in the Atlanta and Dayton Offices, Richard Jones has resigned to accept the position of internal auditor with Maas Brothers Department Store in Tampa, Florida. Alvin F. Baird, who joined the Atlanta staff in August, 1958, resigned recently to accept a position with Atlanta Federal Savings & Loan Association.

Dayton—William Enouen has been named manager of the general accounting section in The Mead Corporation's Comptroller's Department. This is one of seven sections in the Department, which has been almost completely reorganized in recent months. In his new capacity Mr. Enouen has primary responsibility for the preparation of financial reports for management and the Board of Directors and for financial institutions or other third parties. This is one of the top positions in the Comptroller's Department.

Denver—Harold Raizen left this office in April to set up his own practice.

Detroit—Gerald H. Daugherty left our audit staff on March 31 to accept an important position with American Motors Corporation, a valued Detroit Office client.

Houston—Joe W. Holcomb, who has been with the Houston Office since 1954, recently accepted a position with Plastic Applicators, Inc., a Houston client.

Minneapolis—Robert Mellema resigned in April to become controller of Designware Industries. On May 1 Robert Smitten resigned to become controller of Fluff 'N Puff Pillow Service of America. Bruce Thomson resigned to take over the duties of chief accounting officer at the Donnay Construction Company.

San Francisco—Edward "Brad" Dewey has accepted the position of senior internal auditor with the Henry J. Kaiser Company. Brad's new boss is Roy Hughes, formerly of our San Francisco staff.

William Stewart, for several years attached to our Modesto Office, resigned to take a position with one of our clients, Turlock Cooperative Growers.

Washington—Allen J. Krowe, who has been with the Washington Office since January, 1958, has resigned to accept a position as assistant to the controller. Federal Systems Development Division—IBM, at Division Headquarters in Bethesda, Maryland.

Applause

Atlanta

William A. Tate represented TRB&S as member of a TV panel sponsored by the Georgia Society of CPA's and the Internal Revenue Service on February 14. The topic was personal income tax problems.

Baltimore

John F. Rihtarchik, manager in the Baltimore Office, took part in a panel discussion of "Managerial Control Through the Use of Statistical Sampling" on April 20 at Goucher College in Towson, Maryland. Mr. Rihtarchik represented public accounting on a four-man panel which included representatives from business, education and government. The seminar was sponsored by the Baltimore chapter of the Federal Government Accountants Association.

Boston

Richard Desmond recently wrote two

articles on Massachusetts Individual Income Taxes which were published in all leading newspapers throughout the Commonwealth of Massachusetts to help taxpayers prepare their returns.

Chicago

Henry Korff addressed the University of Illinois Accounting Club on February 25. His subject was "A Career in Public Accounting."

Raymond Revers has also been in demand as a speaker these past few weeks. On March 31 he spoke to the Loyola University Accounting Club on "Profitability Accounting" and on April 5 he participated in the Maine Township High School Career Days, speaking on "Accounting as a Career."

Cleveland

Edward L. Pitt gave his eleventh annual talk to the Rotary Club of Eastern Cleveland on March 9. The sub-

ject—"Income Tax Deductions." On March 30 he was elected to serve his sixteenth term as treasurer of that organization.

Dayton

R. Allan Parker was appointed chairman of a Budget Committee group for the Community Chest Association of Montgomery and Greene Counties.

Luke Ware has been re-elected to the Board of Directors of the Dayton Chapter, Ohio Society of CPAs.

James Bresnahan gave a talk and participated in a panel discussion on "The Feasibility Study" before the Miami Valley Computer Association on April 20.

Les Buenzow and Jack Wright were on the panel for the briefing session for the CPA Exam. This session is sponsored by the Education Committee of the Dayton Chapter, Ohio Society of CPAs.

Denver

Carleton H. Griffin addressed a dinner meeting of the Chicago Tax Club on February 17. His subject was "Changes in Accounting Method." On March 30 he spoke on the same subject at a breakfast meeting of the Colorado Society of CPAs.

Detroit

Kenneth S. Reames served as a panel member in a discussion of "Federal Tax Considerations in Corporate Acquisitions" at the February meeting of the Controllers Institute of Detroit.

On March 29, Phyllis E. Peters discussed "How to Prepare for the Auditor" before the Detroit Chapter

of the American Society of Women Accountants at McGregor Memorial Center. Guests were the senior women accounting students of the Detroit area colleges. Also present were the Dean of the College of Commerce and Finance at the University of Detroit, the Dean of the Evening College of Commerce and Finance at the University of Detroit, and the Assistant Dean of the Detroit Institute of Technology.

Rosemary Hoban was featured in an article in the Detroit News on March 16 in connection with Personal Affairs Month. She presented her views on what the housewife should know about finances.

On February 23, Thomas E. Drenten participated on a panel at the NAA Pre-Spring Discussion Forum in Grand Rapids. Subject of the forum was "Accounting for the Supplementary Costs of Labor."

Donald J. Bevis delivered a speech on "Ethical Considerations for an Accountant" at the First Annual Accounting Conference of the University of Detroit on May 7.

Inventory management was the subject of a speech given before the Motor City Chapter of the Systems and Procedures Association by Donald R. Wood on April 19.

On January 11, James E. Seitz spoke on Management Services before the auditing class at the University of Michigan.

The University of Michigan Chapter of the Society for the Advancement of Management heard Donald A. Curtis speak on "Developing Accounting Information for Business Decisions" on December 9.

Wallace M. Jensen has been a member of the Mayor's Advisory Planning Committee, City of Grosse Pointe Farms, for the past two years. Members of the committee recently received a resolution of appreciation—and one of the signers was Councilman Henry E. Bodman II, of our Detroit Office. Mr. Jensen declined reappointment to this committee because of his forthcoming move to New York.

Grand Rapids

Richard W. Lamkin spoke to the following chapters of the Michigan Association of CPAs. His subject was "Why Change the Rules of Professional Conduct?"

Eastern Chapter	— April 5
Southwestern Chapter	— April 28
Upper Peninsula	— April 29

Mr. Lamkin also served as the general discussion leader for a case study discussion at the Western Chapter meeting held at Ferris Institute, Big Rapids on April 21.

Joyce E. Cowman and Kenneth H. Nelson assisted the Education Committee of the Greater Grand Rapids Chamber of Commerce in presenting the 14th Annual Vocational Information Institute. They discussed the accounting profession at the Grand Rapids and East Grand Rapids high schools.

Kenneth H. Nelson acted as moderator for a discussion forum at the February 24 meeting of the Grand Rapids Chapter of NAA.

Houston

Owen Lipscomb spoke before the Permian Basin Chapter of the Texas Society of CPAs on March 24. The

meeting was held in Midland, Texas. The topic of his talk was "The Scope of the Committee Work and Activities for the Year."

Preceding the First City National Bank's annual Gridiron Dinner, there is a luncheon at which the annual press awards are presented. These awards are judged by an out-of-town newspaper, the results mailed to the Houston Office of TRB&S and held by us unopened until the presentation is made at the luncheon. This year Thomas C. Latter represented the firm at this luncheon which was held at the Houston Club on April 12.

Owen Lipscomb was one of the editorial feature writers for the Sunday, April 17 edition of *The Corpus Christi Caller-Times*. His article was entitled "Tax Cheaters" and dealt with the growing temptation to pry at loopholes in the law.

Kansas City

Glen Olson has been elected a director of the Kansas City Chapter of National Office Management Association for 1960-61. Mr. Olsen was also a moderator at a seminar on budgeting at the University of Kansas City in March.

Gale Hoffman was elected to membership in the Estate Planning Council of Kansas City. This is an association made up of attorneys, accountants, bank trust officers and life underwriters.

Gary D. Doupnik has been elected to membership in the National Society for Business Budgeting.

John D. Crouch and Glen Olson attended the annual "Accountants' Day" at the University of Kansas in Lawrence on April 25.

Los Angeles

Frank Daft attended the conference of Sears, Roebuck Retail Controllors held in the Los Angeles executive offices on April 25 and 26.

Management Sciences

On April 8, Roger Crane and W. Robert Hydeman attended the joint TIMS-ORSA Meeting in Monterey, California.

On May 12, David Fleisher addressed the Detroit Chapter of the Society for the Advancement of Management on "Selective Inventory Management."

Following are speaking engagements by Roger R. Crane: April 5—American Management Association, Management Information Systems Seminar, New York. April 7—National Retail Merchants' Association, Sixth Annual Home Furnishings Conference, New York. May 9—Harvard Business School, Boston, a SIM presentation. June 8—American Management Association Seminar "Organizing for, Appraising, and Financing Corporate Mergers and Acquisitions" New York. August 24—Association for Computing Machinery Annual Meeting, Marquette University, Milwaukee.

On May 12-14 Mr. Crane was delegate-at-large and session discussant at the American Institute of Industrial Engineers' Eleventh Annual National Meeting in Dallas, Texas.

Milwaukee

Robert Beyer has been nominated a National Director for a two-year term in the NAA beginning July 1.

Walter F. Renz has been appointed

a Director of the Milwaukee Chapter of the NAA for the 1960-61 season.

Lowell L. Robertson spoke before the student body of the University of Wisconsin in Milwaukee on April 5. His subject was "Opportunities in Accounting."

Walter F. Renz spoke on Management Services to the Wisconsin Society of CPAs Milwaukee Chapter at a dinner meeting on February 1.

The Tax Topics Committee of the Milwaukee Chapter of the Wisconsin Society of CPAs, under the chairmanship of Roy C. Wetterhall, prepared a series of articles on Wisconsin income taxes, which appeared in *The Milwaukee Journal* and other newspapers throughout Wisconsin.

Robert Beyer addressed the Metropolitan Controllors Association in New York on May 18. His talk was on "Return on Investment."

Minneapolis

E. Palmer Tang is the newly elected president of the Minnesota Society of CPAs. He took office at the annual meeting of the Society on May 24.

James F. Pitt was honored by two groups in April. The first award was a scroll given by the Minnesota State Board of Accountancy for noteworthy service to the profession from January 1954 to January 1960. The second award was made by the Federal Government Accountants Association in recognition of outstanding and meritorious contributions to the profession of accountancy in this area.

Palmer Tang spoke before the March luncheon meeting of the Southwest Kiwanis on the subject "Services Offered by the Professional Account-

tant," giving particular emphasis to management service.

Ingvar B. Aaseng recently joined the Twin City Controllers' Association, which is a group of retail controllers.

New York

William Carson spoke on "The Use of Trusts in Estate Planning" at the March 17 meeting of the Estate Planning Council of Jacksonville, Florida.

Ronald Isola had an article published in the February 15 edition of *The Journal of Commerce* covering new developments in the treatment of travel and entertainment expense by the Internal Revenue Service.

A sample income tax return of a commercial bank, together with editorial comments by Mr. Isola regarding treatment of tax problems affecting commercial banks, were sent out with the February issue of the *Banking Law Journal*.

On February 10, Kenneth Mages attended an electronics seminar of the Retail Research Institute (NRMA) at the St. Francis Hotel in San Francisco and gave a talk entitled "The Auditor Looks at Electronic Data Processing."

Also on February 10 Mr. Mages attended a dinner and evening meeting with about ten representatives of the Air Material Command in San Bernardino, California. The meeting was arranged by Karney Brasfield and was attended by Ralph Hunt and Jack Heil of our firm. The purpose was to discuss the flow of merchandise through multi-unit retail stores and warehouses and the organizational problems in connection therewith, since the Air Force has similar problems.

William Werntz has been nominated to the AICPA Council as a member-at-large. On April 27 he spoke before the Hamilton (Ontario) Control of the Controllers Institute on the subject, "What Financial Statements Don't Disclose." He was presented with a handsome silver tray, appropriately inscribed to commemorate the occasion.

Neil Bersch, Sheldon Goldberg, and Avron Brog, of the Tax Department, attended the Tax Study Group dinner on April 25 at the New York University Club.

William A. Bergen was elected Director of the Bergen Chapter, New Jersey State Society of CPAs.

Arthur Michaels was a member of a panel which discussed current problems in connection with auditors' reports at a meeting of the New York State Society of CPAs on April 27 at the Barbizon Plaza Hotel. The meeting was sponsored by the Committee on Auditing Procedure, of which he is a member.

Herbert Weiner was guest speaker to the controllers of the member stores of the Frederick Atkins buying group at the Annual Spring Meeting on May 5 at the Drake Hotel, Chicago. The talk covered current tax developments of installment method reporting and other department store problems.

William K. Carson has just been appointed vice president of the Estate Planning Council of New York City.

Joseph Levee will speak at a meeting of the New York State Society of CPAs in Manchester, Vermont on June 20. His subject—"The Treasury Department's Attack on Tax Avoidance Plans."

The New York State Society of CPAs held a technical meeting on

Foreign Trade Accounting and Foreign Government Taxation on May 11 at the Barbizon-Plaza Hotel. Joseph R. Levee told how corporate taxation in the European economic community affects Belgium.

Philadelphia

On April 22 and 25, George Tonks spoke at the Regional Meeting of Sears Controllers at the Ben Franklin Hotel in Philadelphia on the subject, "Maintaining Adequate Internal Control."

Pittsburgh

Robert M. Trueblood has been elected to the Board of Directors of the Visiting Nurse Association of Allegheny County.

Mr. Trueblood was the principal speaker at a meeting of the Pennsylvania Northwest Chapter of NAA at St. Mary's, Pennsylvania on March 23. His subject was "Sampling in Accounting."

On March 30 Louis A. Werbaneth, Jr. was elected a member of the Executive Committee of the Pittsburgh Chapter of the Pennsylvania Institute of CPAs. This term of office is for a two-year period.

Robert M. Trueblood was the speaker at the April 19 meeting of the Minneapolis Chapter of NAA and at the meeting of the Detroit Chapter on April 21. His subject was "Statistical Applications in Accounting."

On May 6 Mr. Trueblood participated in a presentation by the Long-Range Objectives Committee of AICPA at the Greenbrier. The Committee invited members of the West Virginia Society of CPAs and Institute members in nearby cities in

Virginia to attend the meeting. Members of the Committee on Long-Range Objectives outlined and answered questions on a number of problems directly related to the future of the practicing certified public accountant. Mr. Trueblood handled the topic of Management Science.

Mr. Trueblood also spoke on "Sampling in Accounting" at the meeting of the Pittsburgh Chapter of NAA on May 18. On May 20, he was a guest at the Annual Meeting of the Northwestern Chapter of the Pennsylvania Institute of CPAs in Titusville, while on May 19 he attended a meeting of the Erie Chapter. Mr. Trueblood was a member of the panel of AICPA's Committee on Long-Range Objectives which discussed the future of the profession at the annual business meeting of the Philadelphia Chapter of PICPA on March 31.

The Mellon National Bank and Trust Company has been sponsoring a series of seminars on bank operations. On April 5, several representatives of our firm were invited to take part in a presentation of the bank's activities. This included a guided tour through the bank's accounting installations, with a preview of the magnetic ink check imprinting and sorting installation. Our Pittsburgh representatives were H. Justin Davidson, Alan D. Henderson, Anthony E. Rapp, Henry J. Rossi, Philip E. Leone, William J. Simpson, John C. Williams and Louis A. Werbaneth.

Rochester

Gail N. Brown represented the public accounting profession at the Annual Career Conference Day held at Canisius College, Buffalo on April 7.

James M. Moore was elected secretary of the Rochester Chapter of the New York State Society of CPAs for the year beginning June 1, 1960.

St. Louis

Edwin H. Wagner, Jr. has been appointed co-chairman for the Central States Conference of CPAs and Kenneth J. Bauer has been appointed to the Arrangements Committee.

Andrew C. Ries appeared as a Tax Judge on a local television tax quiz for high school students sponsored by the Internal Revenue Service of St. Louis.

Lynn G. Phegley participated in the accounting section of the Fifth Annual Vocational Guidance Program conducted at DeAndreis High School in St. Louis.

Raymond T. Gusnard attended an IBM Seminar on Optical Scanning Equipment.

Eugene Schorb acted as discussion leader at the Monroe County Career Day held recently for 500 high school seniors.

Edwin H. Wagner, Jr. has been appointed a member of the Executive Board of the President's Council of St. Louis University.

San Francisco

Robert Estes was guest speaker at the first spring meeting of Beta Alpha Psi, national accounting fraternity, at the University of California on February 18. His topic was "Public Accounting and the Challenge it Offers to an Accounting Major."

Dr. Ernest Koenigsberg has been appointed lecturer in the Graduate School of Industrial Engineering at

Stanford University beginning March 28. His subject will be Operations Research.

"How Operations Research Can Improve Mining Results" is the title of the article by Dr. Koenigsberg which appeared in the February issue of *Coal Age*, the mining trade magazine.

On March 16 Dr. Koenigsberg spoke before the Golden Gate Retail Controllers on "Simplified Inventory Management." Gene Englund, who is a member, and his two guests, Leroy Schadlich and Leo Feltz, were there to hear the speech.

Thomas J. Ennis is now a vice president of the California State Society of CPAs. He was reappointed to three committees of the San Francisco Boys' Club, of which he is an active member — Executive, Finance, and Legal.

Robert W. Johnson spoke on "The Design of Management Systems for Future Environments" at the second joint western regional meeting of the Operations Research Society of America and the Institute of Management Sciences (ORSA-TIMS) which was held in Monterey, California, on April 7 and 8.

Dale Bowen talked before the April 20 luncheon meeting of the San Francisco Chapter of the California Society of CPAs on "Accounting Systems for CPA Firms."

Mr. Bowen was invited to give a two-hour seminar on cost accounting at the annual meeting of the National Association of Refrigerated Warehouses in Miami, Florida on April 25-27. Members of the association also



Jan Dysart, daughter of Mr. and Mrs. Hugh Dysart, Jr. of our Boston Office, represented the school children of Massachusetts who contributed to the fund for the silver service presented on Patriots' Day to the world's first missile cruiser, the USS Boston. Jan is shown presenting a scroll of the contributors to Captain Joseph F. Enright, USN.

invited him to attend the meeting of their cost accounting committee, held concurrently.

Robert Bolinder is currently teaching an accounting course for the University of California Extension.

Carl Alexander attended the Los Angeles Region Retail Controllers Conference of Sears Roebuck & Co. held at the Sacramento Inn in Sacramento on April 25-26.

Seattle

Gerald E. Gorans was chairman of the session on "Budgeting and Cost Control—Planned Profits" at the National Office Management Association International Conference in Montreal on May 24. Mr. Gorans has just com-

pleted his term as president of the Seattle Chapter of NOMA.

At the February meeting of the Washington Society of CPAs, Edward P. Tremper reviewed the activities of the AICPA Committee on Auditing Procedure over the last three years and also discussed the recent statements issued by the committee.

Gerald Gorans has been appointed a colonel in the advance gifts division of the Seattle United Good Neighbors campaign.

Washington

Karney A. Brasfield was the chairman of the Spring Conference of the Society for the Advancement of Management held on Friday, May 5 at the Shoreham Hotel in Washington.

After Hours

Atlanta

The 911 Club, organized by Atlanta staff members for investment purposes, held its organizational meeting in March. These officers were elected: Robert V. Wagner, president; Loretto G. Boswell, vice president; Saylor J. Fultz, treasurer; George C. Wright, secretary. Other charter members of the club are William A. Tate, George D. Ashford, Carl P. Williford, Marvin H. Zion, and James A. Westbrook.

Boston

The Annual Awards Dinner honoring the successful candidates of the 1959 Massachusetts CPA examinations was held April 25. Among the guests were Stephen Casey, Donald Keller, and Francis Mazzucotelli of the Boston Office.

Robert Hall of Braintree, Massachusetts and Hugh Dysart, Jr. of Needham, Massachusetts have been elected town meeting members in their respective towns.

Thomas Megan has recently become a member of the Kiwanis Club in Watertown, Massachusetts and has already been appointed chairman of the Finance Committee.

Chicago

William Schwanbeck will serve again on the Membership Campaign Committee of the Illinois State Chamber of Commerce.

After an extremely close contest, William Duffy emerged victorious as the newly elected member of the school board of Wheeling-Buffalo Grove, Illinois.

Richard Guinand has been devoting much of his spare time assisting with the coaching of a Little League baseball team in Libertyville, Illinois. These Little Leaguers are particularly lucky, since Dick once tried out for the Chicago Cubs.

The grand finale of Skokie Country Club's curling season was the Mixed

Club Championship open to all curlers on March 10-12. Winners of this three-event Bonspiel were none other than Mr. and Mrs. Allen Howard, pictured below.

At the Illinois Society Awards Dinner held at the Conrad Hilton Hotel on April 21, John Brown, Royal Cox, John Gessert, and Donald Peterson received their CPA certificates from the State of Illinois.

Dallas

David Muir acted as panel moderator of an all-day discussion of "Data Processing — a Tool for Management," held at Southern Methodist University on April 21 under the sponsorship of the Dallas Chapter, NAA. The forum was well attended by accountants and executives of firms in the area.

Dallas staff members celebrated the end of the tax season by challenging a local firm to a basketball game. However, the strain of the tax season proved too great and the local team scored an easy victory.

Mrs. Leona Lowry's son, Richard, was among those honored at a special scholarship Honor Day held at Southern Methodist University.

Dayton

James Sauer has been elected to the Official Board and the Stewards' Committee of the Riverdale Christian Congregational Church.

The following staff men participated in Junior Achievement audits under the supervision of Dane Charles: Harry Flasher, Richard Irvine, Jerry

Curling enthusiasts are Mr. and Mrs. Allen Howard of Chicago, pictured at left below on the night they won the Mixed Club Championship. Sharing honors are fellow curlers Mr. and Mrs. Richard Hobbs, at right. Curling is a game of Scottish origin in which stones are hurled along a stretch of ice.



Machle, James Nicholson, Richard Paulick, Chester Russ, James Sauer, Richard Stamper, and Sherley Swarts.

Denver

Arthur Samelson has been invited to serve on the State Relations Committee of the Denver Chamber of Commerce.

Detroit

Lightning Industries, the Junior Achievement Company sponsored by the Detroit Office, won an honorable mention in the Industry Award Contest. Advisors for the firm are William Borst, David Burchfield, James Gibson, and Roger Markhus.

Mrs. Wallace M. Jensen was given a Community Service Pin by the Central Volunteer Bureau of Detroit's United Community Services. Her photograph and a write-up appeared in a local newspaper.

Houston

A stag party for the men of the Houston Office was held in the Ben Milam Hotel on March 25. At this time an engraved desk pen set was presented to David S. Pitts on the occasion of his leaving the firm after eight years on the staff.

Los Angeles

On April 22 the Los Angeles Office retired from the wars and took on the Candlewood Country Club in an all-day outing. As might be expected so soon after April 15, the Tax Department — averaging a tidy 153 — gave every indication they were swinging at Forms 1040 instead of golf balls. As a result Philip Young captured (?) high gross. He was closely followed by John Balian who, although shooting second high gross, had figured out

the handicap system and won low net with a handicap of 98.

One of the high points of the evening occurred at dinnertime when Charles Ross collected 50c from John Heil, the day's medalist, as a result of some fast and furious first tee negotiating.

Pittsburgh

Anthony E. Rapp has been elected to the Board of Directors of the Pittsburgh Chapter of the Junior Chamber of Commerce, and has been appointed Treasurer. He also received a certificate of merit for being chairman of the Speak-Up Jaycee Contest in Pittsburgh.

The senior staff members of the Pittsburgh Office and their wives had a farewell dinner for Richard and Evelyn Shuma at the Pittsburgh Athletic Association on Friday, April 30. Dick, who has transferred to the Denver Office, was presented with a radio on behalf of the entire staff of the Pittsburgh Office, and individual gifts from those present were given to the Shumas to help them pioneer in the West. These included such practical things as ten-gallon hats, water canteens, and other valuable items.

The Pittsburgh Chapter of the Pennsylvania Institute of CPAs held its annual dinner-dance honoring the new CPAs on Saturday, April 30. Thirteen members of the Pittsburgh staff attended with their wives.

Louis A. Werbaneth was elected a member of the Interim Steering Committee of the Pitt-Wildwood Club. They hope to purchase the golf course of the University of Pittsburgh and to establish the third major country club in the North Hills section of Pittsburgh.

Portland

Wade Hanson was elected chairman of the Board of Trustees of the Portland YMCA recently. He will serve for a year as chief administrative officer of the organization, which provides services for 25,000 members.

St. Louis

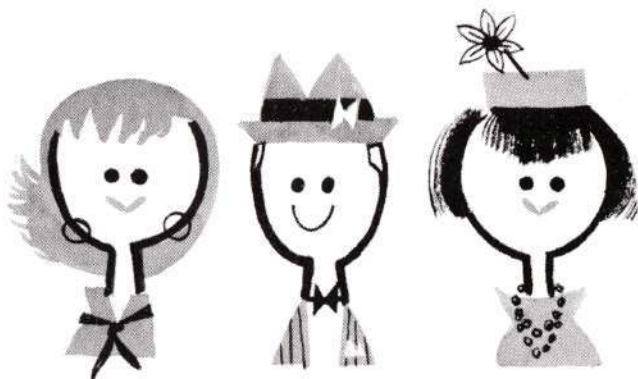
Harold Stellern is spending his Saturdays and evenings managing a boys'

baseball team in the Crusader Division of Catholic Youth Council.

Allan E. Wiedle has assumed the duties of Assistant Scout Master of Boy Scout Troop 687 of Ballwin.

San Francisco

Ralph Walters has been appointed chairman of the ways and means committee of the parents' club of Happy Valley School in Lafayette.



TRB&S At Home

Chicago

Newcomers — Patricia Ann, February 11, to Mr. and Mrs. Richard Gallagher. Catherine Josephine, March 18, to Mr. and Mrs. Donald Georgan. Maureen Patricia, April 25, to Mr. and Mrs. Peter Kelly.

Marriage — Dorothy Hill to Kenneth Shearer, May 28. John Hauch to Marlene Hauptmann, June 18.

Cleveland

Newcomer—Edward Brien, April 4, to Mr. and Mrs. Harold E. Bogart.

Dayton

Newcomer—Katrina Lynn, March 8, to Mr. and Mrs. Harry T. Flasher, Jr.

Denver

Marriage — Edward Max Coffman to Barbara Ann Williams, December 31.

Detroit

Newcomers — James Thomas to Mr. and Mrs. James M. Dincolo, February 26. Jeffrey David to Mr. and Mrs. Thomas R. Ames, March 24.

Bradley Carl to Mr. and Mrs. Russell E. Palmer, April 9.

Houston

Newcomer—James David, March 1, to Mr. and Mrs. Jerry Niemeyer.

Kansas City

Newcomers—Jennifer Lynn, February 28, to Mr. and Mrs. Glen A. Olson. Michael Wayne, February 28, to Mr. and Mrs. Donald W. Love. Kimberly Kay, March 8, to Mr. and Mrs. Vernon B. Mucke.

Los Angeles

Newcomer—Marlene, March 27, to Mr. and Mrs. William Westenskow.

Milwaukee

Newcomer—John Anthony, March 23, to Mr. and Mrs. Ralph Marsh.

New York

Newcomers — Stephen Edward, Feb-

ruary 16, to Mr. and Mrs. Marvin Lefkowitz. Leslie Beth, March 13, to Mr. and Mrs. Herbert M. Paul.

Marriage—Ursula M. Vosberg to Robert Lukefahr, April 23.

Pittsburgh

Newcomer — Jennifer Louise, March 2, to Mr. and Mrs. Harold E. Klose.

Rochester

Newcomer — Peter Lawrence, February 21, to Mr. and Mrs. Edward Sallerson.

San Francisco

Newcomer—Douglas Andrew, February 17, to Mr. and Mrs. William Griscom.

Seattle

Newcomer — Kristina Grace, December 30, to Mr. and Mrs. William G. Gaede.

Go South, young woman . . . ?

On its second birthday this August, the Atlanta Office staff will have only one unmarried member. Yet there have been as many as ten eligible staff members during the history of the office. What happened? Five marriages, three of them between staff members.

It all began with Elwood Dryden's former secretary, Darlene Riley (now Mrs. Earl Lowry) who was married in February 1959. The next wedding was that of typist Kathleen Fore and

George Ashford of the audit staff last August. Supervisor Robert Minnear and Junior Loretto Boswell became Mr. and Mrs. on May 7, the same day that Carey Yelton of the management services staff began his honeymoon with Carolyn Spann, whom he met in the course of his work at Rich's, an Atlanta Office client. Mr. Dryden's secretary, Marian Langley, will marry James Fultz of the audit staff on July 30. Is all this coincidence or does Elwood Dryden have a hidden talent for matchmaking?

QUARTERLY CORRESPONDENTS

MARIAN LANGLEY	<i>Atlanta</i>
MARJORIE M. PATTERSON.....	<i>Baltimore</i>
MARJORIE J. JOHNSON.....	<i>Boston</i>
SHERLE SWANSON	<i>Chicago</i>
ANNE MATYA	<i>Cleveland</i>
JOHN E. STEPHENSON.....	<i>Dallas</i>
JULIA D. BEHRENS.....	<i>Dayton</i>
BEVERLY THOMAS	<i>Denver</i>
HARRY TROXELL	<i>Detroit</i>
PATRICIA HUBER.....	<i>Grand Rapids</i>
JEANIE LANNOM	<i>Houston</i>
GENEVIEVE SILADY	<i>Kansas City</i>
EVELYN MATTSON	<i>Los Angeles</i>
G. P. ALLEN	<i>Management Sciences</i>
BETTY TOMEK	<i>Milwaukee</i>
ALICE CARLSON	<i>Minneapolis</i>
ELLEN HARDEN	<i>New York</i>
ELIZABETH KEENAN	<i>Philadelphia</i>
MILDRED H. LONCOSKY	<i>Pittsburgh</i>
DAVISON CASTLES	<i>Portland (Ore.)</i>
MARY SHARKEY.....	<i>Rochester (N.Y.)</i>
DOROTHEA M. KRAMER.....	<i>St. Louis</i>
HENRIETTA BARTON	<i>San Francisco</i>
HELEN B. LILLY.....	<i>Seattle</i>
CORLAN JOHNSON	<i>Washington, D. C.</i>

