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AMERICAN INSTITUTE OF ACCOUNTANTS EXAMINATIONS

[Following is the text of the examinations in auditing, law and accounting presented by the board of examiners of the American Institute of Accountants November 14 and 15, 1929.]

Examination in Auditing

NOVEMBER 14, 1929, 9 A. M. TO 12:30 P. M.

The candidate must answer all the following questions:

No. 1 (10 points):

(a) Define the following methods of depreciation—

(1) Straight line
(2) Reducing balance
(3) Sinking fund

(b) State briefly conditions under which you would recommend each method, and why.

No. 2 (10 points):

You are called to audit the books of the Blank Corporation of Syracuse, N. Y., and you find a number of canceled voucher-cheques for considerable amounts drawn to the order of the X Company of the city of New York, with invoices attached but without bills of lading. Also there is a balance of account due the X Company for which you have received confirmation by mail. None of the materials invoiced appears in the inventory at the end of the year. The voucher-cheques are signed by the treasurer and approved for payment by the president, who is also the general manager.

The bookkeeper tells you that the goods invoiced were delivered by a motor-truck company which does not issue bills of lading but merely takes the receipt of any employee receiving the goods.

What would you do?

No. 3 (10 points):

(a) Securities owned may appear under three captions on the balance-sheet. Name them, and state what class of securities should be shown under each heading.

(b) How would you verify such securities in preparing a balance-sheet to submit to a bank?

No. 4 (10 points):

State fully the principles that would guide you in verifying the valuation of

(1) raw materials,
(2) work in process,
(3) finished goods,

in making a detailed audit of a manufacturing concern. Explain your reasons.

No. 5 (10 points):

Outline a programme for the audit of the first year's operations of an investment company of the type usually known as an "investment trust", managed by a firm of investment bankers.

No. 6 (10 points):

The C & D Manufacturing Co., Inc., engages you to audit its accounts for the year ended Dec. 31, 1928, and to certify its balance-sheet as at Dec. 31, 1928, and its profit-and-loss statement for the year.

What examination of the books and accounts prior to Jan. 1, 1928, would you consider necessary?

No. 7 (10 points):

While auditing the books of the E F Corporation you find an item of $5,000 debited to notes-payable account; that it is a part payment on a note for $15,000 signed by the president individually; that the proceeds of the note were used to purchase certain stocks for the corporation; and that the certificates for those stocks are in the name of the president personally. Against the loan of $15,000 were pledged other securities (belonging to the corporation) of the book value of $20,000. The only entry of these transactions on the books of the corporation is the $5,000 mentioned above. You note further that the president alone has access to the safe-deposit box containing the corporation's securities.

(a) What is your opinion of the liability of the corporation on this note?

(b) What recommendations would you make?

No. 8 (10 points):

In February, 1929, you are retained to audit the accounts of an investment company for the year 1928. You find that the accounts were audited for 1927 by a certified public accountant, and you are asked to accept his list showing quantities and costs of securities owned at Dec. 31, 1927, making in your certificate whatever qualification seems desirable. You are furnished with a similar list of securities owned at Dec. 31, 1928, which you find to agree as to quantities with the securities on hand as examined by you, plus those hypothecated as collateral duly confirmed by the holders; and, as to total cost, with the balance of "securities owned" account in the general ledger.

(a) Do you consider the foregoing a sufficient verification of the "securities owned" account?

(b) If not, what additional verification would you consider necessary?

No. 9 (10 points):

What are the (a) advantages and (b) disadvantages of no-par stock?

No. 10 (10 points):

When called in to check and approve the income-tax returns of the members of the firm M & L, you find the following conditions:

Capital investment of each partner, $50,000.

During the year M has drawn $4,500 and L, $6,500, as salaries in accordance with the partnership agreement.

Including these salaries as expense, the firm's books show a loss of $11,000 for the year, but as partners' salaries are not a deductible expense it is admitted that for income-tax purposes there has been neither loss nor gain.

As the partners share equally in gains or losses, they write the word "none" under income from partnerships on their individual returns.

(a) Are they correct?

(b) If not, state what net income or loss should be returned for this item by each partner and explain how you reach your conclusions.

Examination in Accounting Theory and Practice

PART I

NOVEMBER 14, 1929, 1 P. M. TO 6 P. M.

The candidate must answer the first three questions and one other question.

No. 1 (38 points):

You are employed to certify a balance-sheet of the Bed Manufacturing Company as at December 31, 1928. At the date of your examination—March, 1929—the company had closed its books for the year 1928 and prepared therefrom the following income-and-expense statement:

THE BED MANUFACTURING COMPANY

Income-and-expense statement—year ended December 31, 1928

Sales:		
Model 1120 (11,246 units)		$269,904
" 1220 (1,824 ")		48,336
Repairs (both models)		9,040
		$327,280
Less: trade discounts (6%)		19,094
		$308,186
Cost of sales:		
Inventory—January 1, 1928	$215,422	
Purchases—raw material and supplies	82,911	
Enameling cost (outside work)	19,605	
Crating	14,271	
Other productive labor	48,343	
Manufacturing expenses	36,202	
	$416,754	
Less: inventory—December 31, 1928	214,930	201,824
Gross profit		$106,362
Selling and administrative expenses:		
Salaries—salesmen	$ 25,026	
" —officers	32,500	
" —clerical	6,125	
Traveling—salesmen	6,130	
Stationery, etc.	1,115	
Telephone and telegrams	896	
Taxes—local	800	

Incidentals	$ 1,275	$ 73,867
Operating profit		$ 32,495
Additions to income:		
Interest on bank balances and notes	$ 43	
Discounts on purchases	128	171
		$ 32,666
Deductions from income:		
Interest on notes payable	$ 1,823	
Discounts on sales (cash)	3,613	5,436
Net income before federal income tax		$ 27,230

You ascertain that the company maintains no cost-finding records, as part of the general bookkeeping system, but fixes its prices on the basis of estimated production costs.

Your attention is directed, almost immediately, to the fact that the relative balance-sheet presented shows an inventory value of approximately 75 per cent. of the total current assets, an analysis of which discloses the following:

Summary of inventory—December 31, 1928

Model	Quantity	Unit price	Total
Finished stock in warehouse—crated:			
1120 Mahogany	1,089	$17.75	$19,329.75
1120 Walnut	1,527	17.75	27,104.25
1220 Mahogany	477	21.50	10,255.50
1220 Walnut	686	21.50	14,749.00
Finished stock wrapped but not crated:			
1120 Mahogany	220	17.35	3,817.00
1120 Walnut	118	17.35	2,047.30
1220 Mahogany	86	21.00	1,806.00
1220 Walnut	22	21.00	462.00
Finished parts in stock-room:			
1120 Mahogany—head ends	2,643	9.00	23,787.00
1120 Walnut — " "	471	9.00	4,239.00
1220 Mahogany— " "	1,876	11.50	21,574.00
1220 Walnut — " "	803	11.50	9,234.50
1120 Mahogany—foot ends	2,415	7.00	16,905.00
1120 Walnut — " "	402	7.00	2,814.00
1220 Mahogany— " "	1,944	8.75	17,010.00
1220 Walnut — " "	1,112	8.75	9,730.00
1120 Mahogany—side rails	4,818	1.25	6,022.50
1120 Walnut — " "	1,202	1.25	1,502.50
1220 Mahogany— " "	4,136	1.25	5,170.00
1220 Walnut — " "	1,532	1.25	1,915.00
Cast-iron and sheet-iron parts—not enameled:			
1120—head ends	465	8.75	4,068.75
1220— " "	205	11.25	2,306.25
1120—foot ends	407	6.75	2,747.25
1220— " "	226	8.50	1,921.00
1120—side rails	1,013	1.15	1,164.95
1220— " "	600	1.15	690.00
Casters:			
1120	72 gross	18.75	1,350.00
1220	46 "	26.25	1,207.50

Details of the inventory, as at January 1, 1928, were not available.

With the foregoing data before you, prepare a report in detail containing comments on existing conditions and suggestions for improvement.

No. 2 (30 points):

The directors of five corporations, all situated in the same state, desire to consolidate. With that end in view they draw up and sign an agreement to be submitted to all stockholders of record, setting forth the plan of the proposed consolidation and stating its purposes and advantages.

You are called upon to audit the books of account and records of the five companies and to present a certified balance-sheet showing the book value of the capital stock of each company. You are then to prepare a schedule showing how much stock of the new corporation should be issued in payment for the stock of the companies about to be consolidated.

You are next required to prepare a balance-sheet giving effect to the consolidation, after it has been unanimously approved.

The result of your audit of the individual companies, as of January 1, 1929, accepted by the several boards of directors, was as follows:

Assets	Carter Yarn Co.	Atlas Mills	Ladd Cotton Mills	Reliable Finishing Co.	Excelsior Print Works
Cash	$ 3,198	$ 167,071	$ 54,316	$ 8,464	$ 7,800
Inventories	402,649	376,476	384,627	32,904	265,644
Fuel and supplies	17,270	18,759	20,241	2,876	14,290
Accounts receivable—					
Selling agents	24,756	130,974	42,420		
Other	2,200	55,402	2,125	98	10,456
Mill store account			17,846		
Insurance unexpired	2,500	4,250	16,241	387	564
Interest accrued	1,451	2,341	1,298	963	1,400
Property and plant	950,000	1,054,674	1,265,455	175,602	141,750
Other real estate	75,000		24,000		
Investments	25,000		655,810		
	$1,504,024	$1,809,947	$2,484,379	$221,294	$441,904
Liabilities					
Notes payable	$ 175,000	$ 300,000	$ 75,000	$ 62,850	$ 110,000
Accounts payable		3,675	22,380	8,444	121,864
Wages accrued			5,437		2,675
Reserves for 1928 income taxes		14,645	16,245		14,475

Reserves for depreciation	$ 650,000	$ 452,853	$ 928,332		$ 30,743
Surplus	179,024	38,774	486,223		62,147
Profit for previous six months			450,762		
Capital stock—common	500,000	1,000,000	500,000	$150,000	100,000
	$1,504,024	$1,809,947	$2,484,379	$221,294	$441,940

The Carter Yarn Co. owns 250 shares of capital stock of Excelsior Print Works, and Ladd Cotton Mills owns 12,260 shares of Atlas Mills. Both blocks are carried on the books at cost.

The capital stock of the companies is as follows:

Carter Yarn Co.	25,000	shares,	par	value	$ 20
Atlas Mills	20,000	"	"	"	50
Ladd Cotton Mills	5,000	"	"	"	100
Reliable Finishing Co.	1,500	"	"	"	100
Excelsior Print Works	1,000	"	"	"	100

The new corporation is organized under the name of the Carter Ladd Corporation with an authorized capital stock of 75,000 shares, par value $100 each.

The Reliable Finishing Co. and Excelsior Print Works are taken into the merger at 100 per cent. of their capital stock, surplus and all reserves; the other three companies at 80 per cent. This is to be computed to the nearest whole number of shares and the balance applied to surplus.

No. 3 (17 points):

The balance-sheet of A, B and C, a partnership, as at December 31, 1928, was as follows:

Assets

Cash	$ 4,000
Accounts receivable	70,000
Inventory	40,000
Deferred charges	500
Fixed assets	65,000
Goodwill	20,500
	$200,000

Liabilities

Notes payable	$ 20,000
Accounts payable	60,000
Loan from B	10,000
Capital:	
A	$ 75,000
B	30,000
C	5,000
	$200,000

At this date (December 31, 1928), owing to a disagreement, it was decided to dissolve the partnership and, forthwith, assets were realized, liabilities were liquidated and resultant cash distributions were made to the partners on January 31, 1929.

The accounts receivable realized $55,000, the inventory $30,000 and the fixed assets $47,000.

The profits of the partnership had been shared in the following proportions: A one half, B three eighths and C one eighth.

A preliminary preparation of the partners' accounts, toward the end of January, 1929, indicated a debit balance on C's account which was of doubtful collectability.

Prepare the necessary journal entries recording the realization and liquidation and submit statements of the partners' accounts, as at January 31, 1929, after the cash distribution.

No. 4 (15 points):

(a) What is meant by the present worth of a given sum of money, due a given number of years hence, compounded at a given rate of interest?

(b) A corporation deposited $24,700 as security for the rent of a lease, with the understanding that the deposit would be returned in full, but without interest, at the end of nine years and seven months.

On the assumption that money can earn 5 per cent. interest per annum and that the present worth of one dollar due nine years hence at 5 per cent. compound interest is $0.6446, calculate the cash value to the corporation of the deposit of $24,700 immediately upon its being made.

No. 5 (15 points):

What equal amounts must be deposited in a fund, annually, from January 1, 1930, to January 1, 1935 (both inclusive), to provide the following annuities payable January 1st of each year:

$1,500	per	annum	for	five years beginning January 1, 1936
1,000	"	"	"	the next five years, and
750	"	"	"	the next five years following?

Calculate interest earned at 4 per cent. during the entire period.

Given $(1+i)^5 = 1.2166529$ $\quad v^5 = .8219271$

$(1+i)^{10} = 1.4802443$ $\quad v^{10} = .6755642$

Examination in Commercial Law

NOVEMBER 15, 1929, 9 A. M. TO 12:30 P. M.

GROUP I

Answer all the questions in this group.

No. 1 (10 points):

Define and explain the following terms or expressions relative to contracts: Special damages, liquidated damages, legal tender, substantial performance.

No. 2 (10 points):

Lamb & Son were engaged in business under the name of Alpha Paper Works. They became insolvent. They entered into an agreement, in the nature of a deed of trust, with their creditors under which certain creditors, as trustees, were to carry on the business under the name Alpha Paper Company, to divide the profits among the creditors pro rata, and when all were paid to return the business to the original proprietors. The trustees, as such, gave a note to one Reim, who, upon non-payment of the note, sued the creditors alleging them to be partners in the conduct of Alpha Paper Company. What should be the decision?

No. 3 (10 points):

While touring during the past summer an accident occurred in which your automobile was so damaged that it was a total loss except for salvage of a small amount for tires and a few accessories. Can you deduct your loss in your federal income-tax return for the year 1929?

No. 4 (10 points):

You are elected a director of a corporation which has issued six per cent. preferred stock and also common stock. What information, other than the fact that there were earnings available, would you deem it necessary to have in order to enable you to vote properly on a resolution to declare a dividend on the common stock?

No. 5 (10 points):

Define a negotiable instrument. Name and explain the two characteristics which distinguish a negotiable instrument from an ordinary contract.

GROUP II

Answer any five (5) of the following questions but no more than five:

No. 6 (10 points):

Jones, on an automobile trip from New York to Boston, agreed to take a valuable parcel for his friend Smith and to deliver it to Smith's son in Providence. Jones stopped in Bridgeport for dinner. He took his own property out of the car at the hotel, but Smith's parcel, which was left in the car, was stolen while the car was parked. Discuss the principles involved.

No. 7 (10 points):

Detroit, Mich., July 5, 1929.

Sixty days after date I promise to pay to the order of O. R. King six hundred dollars at the Citizens' National Bank, Detroit, Michigan. Value received.

FREDERICK THOMPSON,
By JAMES THOMPSON,
Attorney-in-fact.

Actually James Thompson had no authority from Frederick Thompson to execute the above note. From whom can a holder in due course recover?

No. 8 (10 points):

Burns and Sanford are partners, conducting a profitable business. Sanford, however, is so much of a spendthrift that he falls deeply in debt and is forced into bankruptcy by his creditors. What effect, if any, does this have on the partnership?

No. 9 (10 points):

Knapp became an accommodation endorser on a note made by Styles. When the note matured Styles failed to pay and it was paid by Knapp. Knapp sued Styles on the note for the amount due. Styles set up the technical defense that the note was discharged by Knapp's payment and that therefore no suit could be based on it. Was he correct?

No. 10 (10 points):

In 1921 A purchased real estate for the sum of $20,000. In 1929 he made an exchange with B, receiving another parcel of property, having a value of $25,000, and $5,000 in cash. What was A's taxable income from the transaction?

No. 11 (10 points):

What income-tax cases may be appealed to the board of tax appeals and when must such appeal be taken?

No. 12 (10 points):

Park sold certain goods to Markoe, shipping them by express and forwarding a negotiable bill of lading therefor to Markoe. Markoe was insolvent and while the goods were in transit he made an assignment of his property, including the bill of lading, for the benefit of his creditors. Park, on being advised of the facts and before the goods were delivered, exercised a right of stoppage in transitu by proper notice to the express company. Markoe's assignee claimed the goods by reason of holding the bill of lading, maintaining that the transfer to him of the document ended Park's right of stoppage in transitu. To whom should the goods be awarded?

No. 13 (10 points):

Frank, who owned an apartment house, borrowed a sum of money from Sloane, giving Sloane a power of attorney to collect rents of the apartment house and apply them to reduction of the loan until paid in full. Frank died before the loan was repaid. Was the power of attorney revoked by such death?

Examination in Accounting Theory and Practice

PART II

NOVEMBER 15, 1929, 1 P. M. TO 6 P. M.

The candidate must answer all the following questions:

No. 1 (38 points):

From the data following, you are required to prepare an accounting for the trustees (three brothers, hereinafter mentioned), for the year ended December 31, 1928, embodying (a) a statement of cash receipts and disbursements and (b) a schedule of the payments of principal and income to each beneficiary.

James DeBritt died March 1, 1906. By the terms of his will, the estate was to be divided into seven equal parts as follows:

One seventh to the widow (Jane DeBritt) to be held in trust during her lifetime, with power to will the principal; all income from her share to be paid to her direct. One seventh to each of three daughters—Alma DeBritt McMahon (married), Mira and Susan (both single); each share to be held in trust under the same conditions as the widow's, all income therefrom to be paid to each. One seventh to each of three sons (appointed trustees)—James, Andrew and Herbert; each of these shares was to be divided into two equal parts, one to be a trust fund under the same conditions and terms as the widow's full share, the other to be paid to them outright.

At the date of his death, the testator owned 15,000 acres of unimproved land on Long Island. This land could not be sold except at a great sacrifice, so the trustees received permission from the surrogate to continue the operation of the estate until a satisfactory sale of the property could be made. The surrogate further ruled that all taxes paid on this property should be added to its value and not treated as an expense chargeable to income. By an expert appraisal, as at March 1, 1913, this land was valued at $1,160 an acre.

The total value of the estate at the date of death of the testator, as shown by the appraisal for inheritance-tax purposes, was $2,800,000 which included a value of $840,000 on the Long Island real estate. On the basis of this appraisal, each of the sons was entitled to receive, on account of his free fund, the sum of $200,000.

On November 1, 1911, Alma DeB. McMahon (the married daughter) died, widowed and without issue. Her entire estate consisted of her share in her father's estate. In her will, she made several specific bequests amounting to $350,000. These were paid by the trustees of the estate of James DeBritt and charged to her share as advances. The balance was left to her brothers and sisters in equal shares.

On December 31, 1927, an intermediate accounting was made to the surrogate. All expenses and commissions were paid to this date and all income was distributed to beneficiaries as stipulated.

The following assets remained (all securities having been purchased at par):

Cash in bank	$ 20,000
Office building in New York, inventoried at	340,000
Apartment house in New York, inventoried at	280,000
15,000 acres of Long Island property, on which taxes and assessments, amounting to $39,300, had been paid to March 1, 1913, and $88,200 from March 1, 1913, to December 31, 1927, making its book value, as at the latter date	967,500
New York City 5 per cent. corporate stock, par value	330,000
U. S. government farm-loan bonds, 4 per cent., par value	200,000

Foreign government 5 per cent. bonds	$ 100,000
Railroad and industrial 5 per cent. bonds, on which a 2 per cent. tax is paid at the source	420,000
4,000 shares of 7 per cent. preferred stock of American Metals Co. (par value $100)	400,000

Advances on account of beneficiaries' free fund shares, at December 31, 1927, were as follows: James, $250,000; Andrew, $325,000; Herbert, $300,000; and of the estate of Alma DeB. McMahon, $350,000.

The trustees' transactions during the year 1928, were as follows:

On June 30th, 5,000 acres of the Long Island property were sold for $10,000,000, net, i. e. after all commissions and adjustments had been deducted. The sale was made to the R. E. Development Co. which paid 40 per cent. cash, the balance remaining on mortgage at 6 per cent. until sales of the property were made in individual plots, when substituted first mortgages were to be taken by the estate for 50 per cent. of the mortgage released and the balance in cash. On September 30th, $250,000 of substituted first mortgages were received, bearing interest at 6 per cent., payable quarterly, commencing December 31, 1928.

Regular dividends were received on the shares of stock owned.

Rents received from office building during the year were $54,000 and the attendant expenses were wages $12,000, repairs, etc., $6,000 and taxes $2,000.

Rents received from the apartment house during the year were $48,000 and the attendant expenses were wages $14,500, repairs, etc., $4,000 and taxes $1,500.

Interest received on bank balances, apart from other interest, was $66,750.

Taxes on unimproved property, amounting to $10,500 for the full year of 1928, were paid in March, 1928.

The general operating expenses of the estate were $12,500 for the year.

Interest on advances to the beneficiaries is to be charged at the rate of 6 per cent. per annum.

In lieu of commissions, for services during the year 1928, the trustees received $25,410, which was divided among them equally.

On December 30, 1928, the trustees paid the net income due to each beneficiary. They then decided that they were in a position to make further payments, on account of principal, to those beneficiaries entitled thereto, and proceeded to distribute the sum of $2,650,000 in accordance with this decision.

The final transaction for the year 1928 was the investment of $1,500,000 in U. S. government farm-loan, 4 per cent. bonds at par.

No. 2 (27 points):

Following is the trial balance of Filbert & Company, Inc., December 31, 1928, before closing:

Accounts payable		$ 38,296
Accounts receivable	$ 46,914	
Administrative salaries	10,000	
Advertising	7,800	
Auto expense—salesmen	450	
Bad debts	2,784	
Branch store—account current	21,505	
Capital stock		250,000
Cash in office	1,685	
Discounts allowed	128	
Discounts taken		7,554
First National bank account	48,423	
Freight inward—merchandise	19,544	
Freight outward and delivery	2,118	
Furniture and fixtures	43,420	
Insurance, fire—merchandise	3,000	
Interest	600	
Inventory—January 1, 1928	218,932	
Life insurance—manager	1,520	
Notes payable		50,000
Notes receivable	3,575	
Office salaries and expenses	8,800	
Purchases—merchandise	401,004	
Rent	7,200	
Sales—merchandise		492,515
Salespeople—wages	28,960	
Store—general expenses	7,285	
Surplus—January 1, 1928		53,954
Taxes—personal property	3,200	
Wrapping and shipping	3,472	
	$892,319	$892,319

On January 1, 1929, before the stock-taking could be completed, a fire occurred, resulting in such damage to merchandise that it was impossible to determine accurately the value thereof. It is known, however, that sales realize a gross profit of 20 per cent. or 25 per cent. on cost of sales (freight inward included). Wrapping supplies on hand (undamaged) were valued at $572.

Ten per cent. is to be charged for depreciation of furniture and fixtures.

From the branch-store books, the following is gathered:

January 1, 1928—Cash on hand $1,000, merchandise inventory $27,005 and furniture and fixtures $3,500. During the year 1928, the merchandise purchases were $83,290, sales $108,769, expenses $12,768 and cash remittances to main store $10,000. Bad debts written off were $25.

Depreciation of furntiure is to be computed at 10 per cent.

On December 31, 1928, the cash on hand was $1,986, merchandise inventory $23,280 and accounts receivable (good) $1,700.

You are required to close the books, present balance-sheet, profit-and-loss account and inventory of merchandise, placing the branch-store account current at December 31, 1928, on the main-store books and setting up a reserve for federal income tax.

No. 3 (25 points):

Following is the balance-sheet of the Margo Manufacturing Company as at December 31, 1928:

Assets

Current:		
Cash in banks and on hand		$ 50,000
Customers' notes and accounts receivable, less reserve		300,000
Inventories		1,000,000
Total current assets		$1,350,000
Land, buildings and machinery, as appraised, less reserve for depreciation		6,200,000
Prepaid expenses		20,000
Goodwill		1,000,000
		$8,570,000

Liabilities

Current:		
Notes payable—banks		$ 800,000
Trade acceptances		400,000
Accounts payable and accrued expenses		500,000
Total current liabilities		$1,700,000
Funded debt:		
First-mortgage 6½ per cent. gold bonds	$2,100,000	
Serial gold notes	400,000	2,500,000
Capital stock:		
Authorized and issued—		
Preferred, 20,000 shares, 6 per cent. cumulative, par value $100 each	2,000,000	
Common, 15,000 shares, par value $100 each	1,500,000	3,500,000
Surplus:		
Earned	70,000	
From appraisal of plant	800,000	870,000
		$8,570,000

In order to provide working capital necessary for the continuance of the business, it is proposed to reorganize according to the following plan:

(1) The authorized capital stock to consist of 50,000 shares of 6 per cent. cumulative preferred of a par value of $50 a share and 100,000 shares of no-par common.

(2) The preferred and common stock now outstanding to be surrendered, the present stockholders to receive, for each share of preferred stock now held, one (1) share of new preferred of $50 par, one (1) share of common, no par, and warrant entitling to purchase, on or before June 1, 1929, one-half (½) share of no-par common at $35 a share; for each share of common stock now held, two (2) shares of no-par common with warrant entitling to purchase, on or before June 1, 1929, one-half (½) share of no-par common at $35 per share.

(3) Sale, for a cash consideration of $600,000, of one of the branch plants and taking up the serial gold notes of $400,000, a security for which the plant is mortgaged. The plant to be sold is carried on the books and included in the fixed assets at $750,000, the appraised value, less depreciation.

(4) Issuance and sale of $1,250,000 seven (7) per cent. debentures at 95, the sale carrying with it a bonus of 5,000 shares of no-par common stock.

(5) Application of the proceeds of the proposed financing to the reduction of bank loans, trade acceptances and accounts payable by $600,000, $350,000 and $400,000 respectively and the balance to additional working capital.

Prepare a balance-sheet, as at December 31, 1928, after giving effect to the transactions set forth in the foregoing plan of reorganization.

The expenses relative thereto may be disregarded.

No. 4 (10 points):

You are called upon to ascertain the extent of the fraud committed and the disposition made of the funds so acquired by an individual real-estate operator—Mr. A—who, from certain trustworthy information, seems to have been issuing bogus mortgages.

An obviously incomplete cashbook, practically all the canceled cheques and a partial list of properties and mortgages owned constitute the only available accounting records covering the apparent defaulter's transactions.

State, in detail, your method of procedure.

Relation of Lawyer and Accountant in Tax Practice*

By J. Harry Covington

I think I shall risk telling a very old story, but one that seems to me peculiarly applicable at this time. Bishop Whipple, who was the Protestant Episcopal Bishop of Virginia, had a great sense of humor. On one occasion there was sent down into his diocese a young minister to make an address at a Richmond church. He had come from the classic regions of New England where, while an Episcopalian, he had no doubt absorbed some of the Congregationalist idea of long sermons, and he asked the bishop how long he was expected to preach. The bishop, being a very polite, courtly old Virginian, said, "My dear sir, that is entirely with yourself in the state of Virginia, but my observation after a long period of service is that no souls are saved after fifteen minutes."

It seems to me, after listening to Mr. Trobridge's address, that very little can be said as to the lawyer's relation to the accountant in tax practice. He has after all stated it rather clearly and succinctly. I should like to make a primary observation, however, on behalf of the lawyer, and that is that no thoroughly experienced lawyer ever undertakes to enter the labyrinth of a complicated tax case without at the inception of it calling into association a competent certified public accountant, and no careful lawyer will undertake to prepare the tax returns of clients engaged in extensive business. The tax return itself always embodies statements to be deduced from a critical examination of the books of the corporation or of the individual. While some lawyers, in their vanity, may imagine themselves capable of performing that sort of service, the simple truth is that they are not. That sort of work is most emphatically an accountant's matter.

The truth is that with the coming of tax practice in the United States—and when I refer to tax practice I refer primarily to federal tax practice—there has been developed a new and a complicated field occupied by both the accountant and the lawyer. There are many tax cases in which, from their very inception—

* Discussion following an address by Charles R. Trobridge at the annual meeting of the American Institute of Accountants, Washington, D. C., September 17, 1929.

that is to say, from the time when the bureau of internal revenue first sends its well known letter to the taxpayer, notifying him of an additional tax—it quite obviously appears that the questions involved are accounting problems. No lawyer can safely undertake that sort of a case without calling in the accountant. But it is quite likely that while the problems involved are primarily accounting problems, there are also problems which involve a very exact construction of the more or less complicated sections of our extended revenue laws, raising questions with which no accountant can hope to deal intelligently. No accountant, with any such case presented to him, is rendering proper service to his client if he does not insist upon the employment of a competent lawyer to advise him and to participate with him in the presentation of that sort of a case before the bureau of internal revenue. In other words, he should have the lawyer with him from the start.

The fact is that the professions of law and accountancv have become complementary the one to the other in tax practice. All the lawyers with whom I talk who have an appreciation of the steady advance in the science of accounting have come to realize that accountancy today is a learned profession, just as the law is a learned profession. They have no hesitancy in calling in the accountant to deal with the problems of the taxpayer because they know that there are certain complicated aspects of the usual tax case which are accounting in character and with which they as lawyers are incompetent to deal, just as the accountant should know that there are also problems that are legal in character and with which he is incompetent to deal.

After all is said and done, therefore, the lawyer and the accountant stand very largely upon a common ground in the presentation of the cases of taxpayers, either before the bureau of internal revenue or before the board of tax appeals, as the case may be. Of course, after a case gets beyond either of those two jurisdictions, it goes without saying that the accountant simply can not any longer conduct the case but must leave its presentation to a competent lawyer.

My observation has been that, particularly in the more remote places of the United States where the smaller accounting firms or individuals practising accountancy are situated, the one difficulty which the accountants perhaps have not appreciated up to this time is that the problems confronting them are often legal problems and that they ought to have the association of lawyers at an early stage of many cases. This is not so with the larger concerns engaged in practising accountancy. At the present time the fact seems to be that in the metropolitan areas where the larger tax problems arise accountants have been very properly ready to realize the inherent difficulties of dealing with certain cases without the assistance of lawyers. When the accountants in the remote sections undertake to present their cases entirely without the coöperation of lawyers, they are often unable to make possible intelligent legal service to their clients later on when their cases come up before the courts. It isn't fair to a taxpayer to go along with a case involving primarily legal problems without calling in the service of a lawyer until the time comes when there conceivably has been an adverse decision in the bureau of internal revenue and an affirmance of that adverse decision by the board of tax appeals, and it is determined to go to the courts.

In considering the practice of the board of tax appeals it must be understood that a review of an adverse decision of that body means the review of questions of law which have been there determined upon the transmittal of the record either to a circuit court of appeals or to the court of appeals of the District of Columbia. This record must in appropriate fashion concretely present the questions of law so that the appellate court may see that there are in fact such questions improperly decided. In all such cases the accountant's client ought to have the services of a lawyer in the presentation of the case before the board of tax appeals as well as in the later proceedings in the courts. Only in that way can a proper record be assured.

Moreover, as you of the Institute know as well as I, there is an alternative method of treating a tax case. The taxpayer is not compelled to go from the bureau of internal revenue to the board of tax appeals at all. There are frequently considerations of a legal nature which determine the question whether it is appropriate to go through the board of tax appeals with the right of an eventual review on questions of law by a circuit court of appeals or to pay the proposed tax and bring suit for its recovery in a court of the United States. The accountant must realize that there are really legal problems involved in deciding which of these courses his client should pursue, and he should speedily call in the services of a lawyer.

There are various problems, which I have sketched in rather brief form, indicating that the accountant, when he is undertaking to deal with his client, must advise him that there are situations in which the services of a lawyer in association with the accountant are required in the proper and effective presentation of the tax case. These problems are in fact numerous.

Take for illustration the case of a taxpayer who has received his sixty-day letter. He first has to determine whether it is the wiser thing to go to the board of tax appeals or to a court. You probably know as well as I do that there are certain classes of cases in which the view of the board of tax appeals, while it is an administrative agency entirely independent, nevertheless is the viewpoint of the treasury. Some of the members of that board have had prior treasury experience and in certain classes of cases, when they are heard by the board, it is the fact that the viewpoint of that body is likely to be that of the treasury itself. In dealing with a case which has been adversely decided in the bureau one has to consider whether or not the questions involved are those questions on which the board is more likely to take a treasury viewpoint than the courts. The courts are entirely removed from the treasury, and by and large they are composed of extremely competent lawyers. In our industrial centers they are very likely to be composed of lawyers who have in their days of practice been familiar with large corporate enterprises. They are able to approach many questions with that proper breadth of view which goes with thorough understanding.

So at the threshold of many cases in which a review is necessary there is the problem to determine: shall the client go to the board of tax appeals or shall he be advised, if he or it is financially able to pay the tax, to pay and then institute a suit for a refund directly in the district court of the United States? No accountant can competently determine that question because it involves the weighing of a variety of delicate problems. It involves the examination of decisions of the district courts of the United States on questions as nearly kindred to the question involved as are available, and balancing those decisions with the decisions of the board of tax appeals. There, obviously, the counsel of the lawyer is needed.

There is another question that is always to be determined—whether or not the taxpayer needs a speedy disposition of his case. In the clogged condition of the board of tax appeals, he is quite likely to get a speedier decision of his case in a district court of the United States than before the board of tax appeals, and in consequence there may be considerations which should be presented to the client with a picture of what may happen in the courts and a picture of what may happen in the board of tax appeals, so as to determine correctly whether the cause ought to be taken to the one tribunal or the other.

There is yet another question, often involved in the determination of whether a case ought to go to the board of tax appeals or to a district court of the United States, which no accountant can competently determine. This is the effect of the judicial procedure in the jurisdiction where the taxpayer must bring his suit. The judicial code of the United States provides that the district courts of the United States shall conform as nearly as possible to the practice, pleadings and procedure in force in the several states in which the federal courts are situated. It is also provided that the district courts shall likewise regard as law the decisions of the state courts in trials at common law unless the federal constitution or a statute of the United States requires otherwise. To illustrate, a federal court in the state of New York adheres to the practice existing in the state of New York, a peculiar, highly complicated and meticulous code procedure; the district court of the United States in the state of California adheres to the peculiar code procedure obtaining in the state of California; the district court of the United States in the state of Maryland adheres to the common-law procedure in Maryland. The questions of how evidence may be adduced in one or another jurisdiction, what avenues of proof are open and what are the rules of construction of contracts and the like, if one is thinking of going to court rather than to the board of tax appeals, are consequently questions which have a serious bearing upon what course to pursue to establish the case in the courts. Those questions are obviously only capable of determination by the lawyer.

If it is decided to go directly to court, there is another question to determine—whether or not the suit should be instituted in the court of claims of the United States or in the district court of the United States. The practice in the court of claims is decidedly at variance with the practice in the district courts of the United States. The court of claims is a court taking its testimony through commissioners who go to various parts of the United States, if the necessity exists. Moreover, the court of claims sits in the city of Washington. It gets many more tax cases than any single district court of the United States, save possibly the district court in the southern district of New York, and gradually has acquired a more than ordinary degree of understanding of tax matters. So one has to determine whether his cause ought to be instituted in a district court of the United States or in the court of claims, having regard for the locality of the district court which would hear the case.

To illustrate what I have just said, I should think that there would be very little difference in selecting a United States district court in the southern district of New York or the court of claims of the United States for the purpose of instituting a suit for a refund in the event that it was determined to go directly to the court, because the judges sitting in the southern district of New York have a constant flow of tax cases for determination. They have become quite expert in such matters and have, as their decisions show, acquired quite a broad and comprehensive view of our tax statutes. On the other hand, if the case is one which, if instituted in a district court of the United States, must be instituted in some remote section where tax cases are few in number and where it is quite conceivable that a narrow view might exist, it would perhaps be more desirable, even though the litigant is at a great distance from the city of Washington, to institute the suit in the court of claims of the United States.

Moreover, there is another question which may have to be determined; that is, whether or not the case is one in which the prior decisions of the court of claims (if it is decided to sue in the court of claims) are apparently favorable, for one always has to consider the situation relating to review of the decision of the court of claims. While after suing in a district court of the United States the plaintiff has under the statute the right of appeal to the circuit court of appeals in the circuit in which the district court is situated, if suit is instituted in the court of claims there is only a restricted form of review. If the decision in the court of claims is adverse the only way in which that adverse decision may be reviewed is by filing a petition for a writ of certiorari, as it is called, in the supreme court of the United States and by making a showing that the decision is so completely at variance with the uniform construction of the tax statutes, and moreover that it so largely involves a question of great public importance to the taxpayers all over the United States, that it is important for the supreme court to review it. While it may not be quite realized by persons who are not lawyers, one of the things that we learn as lawyers is that the failure of the supreme court to grant a writ of certiorari is by no means an indication that they approve the decision of the court below. The supreme court can decide only so many cases in the course of a year without unduly crowding its calendar and thus impeding the administration of justice. There are certain classes of cases that must be reviewed by the supreme court, and, as to the remainder, from among the great volume of petitions for the writ of certiorari that tribunal must select for review cases in which great injustice has manifestly been done, cases which are obviously of great public importance and cases in which there are squarely conflicting decisions in the circuit courts of appeals in different circuits. It does not by any means follow that a mistaken decision of the court of claims in an ordinary case of no importance except to a particular taxpayer will be reviewed by the supreme court.

Therefore, in going into the court of claims to institute suit one does so with the knowledge that unless the question involved is of general importance, or results in a real conflict of decisions, if decided wrongly, the decision in the court of claims is likely to be a final decision.

These matters which I have discussed in rambling fashion are some of the considerations that always come up in determining when and how one ought to go to the courts rather than to the board of tax appeals. Obviously, accountants need the services of lawyers in matters of that sort, and they are not rendering the best service to their clients if they do not employ counsel in those circumstances.

In addition to the procedural questions I have referred to there are numbers of questions that come up in tax practice so completely legal in character that no accountant can undertake properly to deal with them. In the matter of inheritance taxes the question of gifts made in contemplation of death, one of the most interesting that I know of, is in no sense an accounting problem. Whether there has or has not been a corporate reorganization, and in consequence the creation of taxable income, is often a close question of law. Many cases arising under section 220, the accumulated-income section of the revenue act, involve not only accounting problems but problems of law. These are only random illustrations of the matters primarily legal in character which may develop in a tax case.

In adhering measurably to the Bishop Whipple injunction, let me say to you, in conclusion, this: all the lawyers with whom I come in contact have welcomed the advance of the accountancy profession. With the development of the field of tax practice there has come to the lawyer a realization of the fact that his clients are having problems constantly presented to them for the ultimate solution of which no lawyer is competent. The lawyers are realizing that they must themselves always have at hand the services of the very best accountants who can be obtained. On the other hand, the more experienced accountants with whom I come in contact are realizing that the problems involved in a great many of their tax cases are problems that are legal in character and that they are not rendering to their clients the best service of which they are capable if they do not in the early stages of the case have competent counsel called into consultation.

The two professions today which, as the result of our complicated industrial organization, are being drawn closer and closer together are the professions of law and accountancy, and it is a distinct pleasure to me individually to recognize the great advance that has been made by the accountants of the country in the appreciation that they are in fact professional men. They are actuated by ethical considerations, and they are adhering more and more to the same ethical notions of practice with respect to their clients and the conduct of their causes to which the lawyers are expected to adhere. The public accountants have in truth today arrived at that position which has been their aim for a long time, that of a recognized profession engaged in practising an applied science which is as abstruse as the law and requires as competent training. In the future it is my hope to see these two professions go along hand in hand in the service that they render to the great businesses of the country, each of them understanding that it has a field which it peculiarly occupies, each of them recognizing that they are complementary one to the other, and each of them knowing that in a great mass of cases, affecting the very material interests of their clients, neither one of them can do without the other.

Simplified Procedure in Amortization of Debts

By Carroll D. Simmons

Accountants are accustomed to use compound interest and annuity principles in problems directly and traditionally coming under that classification. But they often overlook the use to be made of these principles in cases where the compound interest or annuity feature is not "labeled on the bottle." The following illustrative case, containing the main features of an instalment-selling situation common to several fields of selling, is a typical example of the latter type.

Illustrative case:

> A man purchases a house and lot for $4,500, paying $750 in cash and giving his note for $3,750 at 8 per cent., payable $45 a month beginning one month from purchase date, the agreement specifying that each monthly payment as made shall be applied first to pay interest on the principal and the balance used to reduce the principal. He is to receive a warranty deed when his equity amounts to $1,250.

Two questions which may arise at the date of the sale, or at any time, are:

(1) How many payments will be required to retire the note?

(2) What is the purchaser's equity at the end of any stated period? A special question in the above case is, When will the purchaser have acquired the equity necessary to entitle him to receive the warranty deed?

NUMBER OF PAYMENTS REQUIRED

Solution by arithmetic. The number of payments required to retire the debt can be determined arithmetically by setting up a reduction schedule showing in detail the crediting of successive monthly payments and continuing the computations until the unpaid balance is reduced to zero. Table 1 below shows such a schedule for the illustrative case, skeletonized, however, to include only the first twelve months, the last three months and the last month of each year for the period in between. This schedule shows that it will require slightly more than 122 payments to amortize the debt. It will be entirely paid off with the 123rd monthly payment.

Table 1

Schedule of credits of monthly payments of $45 on a note of $3,750, interest at 8% a year, payments being applied first to pay accrued interest and then to reduce the principal

Payment at end of month No.	Application of payment		Status of principal	
	Interest	Principal	Total paid	Balance due
(1)	(2)	(3)	(4)	(5)
1	$25.00	$20.00	$ 20.00	$3,730.00
2	24.87	20.13	40.13	3,709.87
3	24.73	20.27	60.40	3,689.60
4	24.60	20.40	80.80	3,669.20
5	24.46	20.54	101.34	3,648.66
6	24.32	20.68	122.02	3,627.98
7	24.19	20.81	142.83	3,607.17
8	24.05	20.95	163.78	3,586.22
9	23.91	21.09	184.87	3,565.13
10	23.77	21.23	206.10	3,543.90
11	23.63	21.37	227.47	3,522.53
12	23.48	21.52	248.99	3,501.01
24	21.70	23.30	518.65	3,231.35
36	19.76	25.24	810.70	2,939.30
48	17.67	27.33	1,126.07	2,623.03
60	15.40	29.60	1,469.53	2,280.47
72	12.94	32.06	1,840.51	1,909.49
84	10.28	34.72	2,242.28	1,507.72
96	7.40	37.60	2,677.39	1,072.61
108	4.28	40.72	3,148.62	601.38
120	.90	44.10	3,658.96	91.04
121	.61	44.39	3,703.35	46.65
122	.31	44.69	3,748.04	1.96
123	.01	(44.99*)	3,750.00	

* Only $1.96 required.

Solution by formula. The preparation of such a schedule of payments, even with the aid of printed interest tables and calculating machines, requires considerable time and is at best a tedious process. Though it does not seem to have been generally noticed, the successive credits to the principal of the note after the first such credit are the sums on the respective dates which the first credit would amount to if placed at interest compounded as often as payments are made and at the rate borne by the debt. In column 3 of table 1, the second principal credit is larger than the first by the interest on the first for one month at 8/12 or 2/3 per cent. This is so because the first credit of \$20 reduces the interest requirement for the second month by the amount of the interest on the reduction and thereby allows the addition of this sum to the principal credit. In general terms the principal credit, C_n, at the end of any month, n, can be expressed by the formula

$$C_n = C_1\ (1+i)^{n-1}$$

where C_1 is the initial credit and i is the rate of interest per payment period. With successive payments, the principal credit approaches the total monthly payment, P, as its maximum value, i.e.,

$$C_n \text{ or } C_1\ (1+i)^{n-1} \rightarrow P$$

as n takes on successive integral values. Though the interest credit never quite reaches P, we can set the expression equal to P and solve for n to get the formula desired:

$$n = 1 + \frac{\log P - \log C_1}{\log\ (1+i)}.$$

Assigning to n the integral value *next below* the value obtained from this formula will always give the number of the monthly payment which will completely amortize the debt. In the illustrative case P is \$45, C_1 is \$20, and i is ⅔ per cent. Solution for n in the above formula gives a value of 123.04+. The next integer below this is 123 and this answer agrees with the one obtained by setting up the schedule in table 1.

Solution by interpolation in compound-interest table. By using a compound-interest table for the appropriate rate (⅔ per cent.), the value of n in the problem can be obtained by interpolation, since it is *one more* than the number of periods required for \$20 to amount to (almost) \$45 or for \$1 to amount to 45/20 or \$2.2500. Such a table shows the following amounts:

122 periods = 2.2493,3409
123 periods = 2.2643,2965

As the last interest credit never quite reaches the amount of the monthly payment, we use the tabular number of periods for the amount next below 2.2500,0000, or 122, and add one to give the answer, 123.

The following general rule can now be stated for finding the number of months required to pay a debt by instalments, when each monthly payment is applied first on the accrued interest and then to reduce the principal:

(1) Compute the interest for one month on the total debt and subtract this amount from the monthly payment to get the first principal credit.

(2) Divide this principal credit into the total monthly payment.

(3) Look in a compound-interest table at the appropriate rate (1/12 the nominal annual rate) for the tabular amount next below this quotient, take the number of periods corresponding, and add 1 for the answer.

Added to the other advantages of this method is the fact that if at any time the schedule of payments is thrown out of line by the payment of more than the regular instalment, the number of payments then remaining to be made can be obtained by computing the next principal credit and finding by interpolation the time required for this payment to grow to an amount (nearly) equal to the total monthly payment.

PURCHASER'S EQUITY

Solution by arithmetic. To find by arithmetic the purchaser's equity at any stated date, the schedule shown as table 1 can be used. Column 4 of this table shows the accumulated principal credits at each payment date. This sum plus the initial cash payment gives the purchaser's equity. For the illustrative case it is desired to know when the purchaser's equity will reach \$1,250 and thereby entitle him to a warranty deed. Since the initial cash payment was \$750, the problem is to find when the accumulated credits will amount to \$500 (or more, but not less). The schedule shows that this will be at the time of making the 24th payment.

Solution by formula. As the successive principal credits form the amounts of a compound-interest series, it follows that the accumulated credits form a series representing the successive amounts of an annuity of 1 per period at the given rate. In other words, to get the accumulated credits, A, at the time of making the nth payment, we use the formula

$$A_n = C_1\left[\frac{(1+i)^n - 1}{i}\right].$$

In the illustrative case, suppose it is desired to compute the accumulated credits upon making the 60th payment.

$$A_{60} = \$20\left[\frac{(1.0066,6667)^{60} - 1}{.00666667}\right] = \$1,469.54.$$

This sum agrees within one penny with that shown in the schedule.

Solution using annuity table. It is seen at once that the solution above can be performed by the use of an annuity table, or table of the amounts of 1 per period, at the given rate. To get the accumulated interest credits in the illustrative case at the 60th payment, we find in the table that the amount of $1 per period for 60 periods at ⅔ per cent. is 73.4768,5625. This sum multiplied by $20 gives the answer, $1,469.54. The following general rule can then be stated for finding the accumulated credits at the end of any stated number of periods:

(1) Compute the interest for one month on the total debt and subtract this amount from the monthly payment to get the first principal credit.

(2) From an annuity table, get the figure for the amount of a payment of $1 per period for the stated number of periods at the appropriate interest rate (1/12 of the nominal annual rate).

(3) Multiply this figure by the amount of the first principal credit to get the answer.

Not only will this rule give quickly and accurately the accumulated credits at any stated date but the device is also useful in cross-checking an arithmetically computed schedule at any desired point of time.

Accounting System for a Metropolitan Y. M. C. A.

By Lloyd Morey

The Young Men's Christian Association of Chicago, upon whose accounting system this article is based, is divided into a number of different departments, more or less autonomous in nature, but bound together by a central organization. Title to all property is in the hands of a central board of trustees, which provides certain funds for departmental projects. All properties are operated and all activities carried on by departments, which assume responsibility for certain funds, both annual and permanent. Thus it is necessary to maintain a set of accounts for each department and one for the central board.

A central business office is maintained, through which all purchases, receipts and expenditures are handled and in which all accounts are kept. An annual budget is prepared, including both income and expense for each department. All accounts are classified uniformly for all departments in accordance with the budget. Departments are fully informed of their finances by detailed monthly statements which show both actual and budget figures.

ACCOUNTING ORGANIZATION

The auditor has general charge of all auditing and accounting. He prepares and certifies vouchers and draws cheques in payment thereof. He inspects the business records of the departments. He transmits all financial reports. He is responsible to the board of managers through the business manager.

The chief accountant keeps all financial accounts of the association and prepares all financial reports, under the supervision of the auditor. As an alternate to the auditor he approves vouchers.

The assistant to the treasurer receives all money collected by the departments, makes all collections not handled by departments and deposits all receipts with the treasurer daily. He signs all cheques issued by the auditor. Other duties are also assigned to the same person. He is responsible to the business manager.

The accounts and records of the auditor, chief accountant and assistant to the treasurer are audited by certified public accountants selected by the treasurer.

All persons responsible for receiving money or signing cheques are placed under surety bond in suitable amounts.

INCOME

At all departments cash registers and autographic registers (or sales books) for recording income items are provided. All forms are serially numbered, are issued by the central business office, and must all be accounted for. A daily statement of all income is prepared in the department showing cash-register readings, receipt numbers, etc. This statement must agree with the total cash receipts of the day.

All money received is deposited daily in a local bank, and a cheque is at once drawn in favor of the association treasurer for the amount of the deposit. This cheque is then delivered to the assistant to the treasurer for deposit. The statement is delivered to the auditor for analysis and entry in the daily income report (form 1) which is prepared in duplicate on a bookkeeping machine. The deposit must check with this report. A carbon copy of the report is returned to the department.

FORM 1

Department....................... DAILY INCOME REPORT
Date.............................. Audited by..............

Old balance	Date	Sect.	Acct. No.	Description	Daily total	Year to date total	Proof

A single bank account for all operating funds is maintained, in which all departmental receipts are deposited and against which all cheques are drawn.

Uncollected items are entered as accounts receivable under the proper departments, income accounts being credited at that time.

Posting is made from the daily income report to the income ledger (form 2, page 433). This ledger is kept by means of a bookkeeping machine. An account is maintained in this ledger for each item of the classification of income (later shown) in each department. General-ledger entries are as follows:

$$\left.\begin{array}{ll}\text{Dr.} & \text{Cash} \\ \text{Cr.} & \quad\text{Income}\end{array}\right\} \text{ by departments.}$$

REQUISITIONS

All purchases and all contracts for supplies for all departments of the association are made by or under the instructions of the purchasing agent of the association. Requisitions are issued by departments for all supplies. Orders placed with the purchasing agent by telephone, or by the department as "emergency" purchases, are confirmed by requisition. Requisitions are signed by the section head and by the executive or business secretary of the department. They indicate the budget item to which they are to be charged and show the estimated cost of the articles covered by them. Duplicate copies of requisitions are retained by the department. Originals are sent by the departments to the purchasing agent who makes them effective as promptly as possible and furnishes the auditor with a copy of the purchase order with costs indicated.

FORM 2
INCOME LEDGER

Department................ Section.............. Account.....................

	July	August	September	October	November	December
Budget estimate						
Adjustment and debits						
Current month						
To date						

Date	Sect.	Acct. No.	Description	Daily total	Year to date total	Budget estimate and debits to date
			(Remaining m	onths on	reverse side)	

Whenever requisitions exhaust or threaten to exhaust budget allowances the auditor immediately notifies the department concerned and the business manager of the association. Departments report all transfers and adjustments within their total budgets, when approved by their committees of management, to the auditor, who records them. Increases in total budgets of departments are made only with the approval of the board of managers of the association.

PURCHASE ORDERS

When the purchasing agent has determined where the material covered by a requisition is to be purchased, he issues a purchase order, copies of which are disposed of as follows:

1. Sent by the purchasing agent to the vendor.
2. Retained by the purchasing agent, and filed numerically in a "current" file; after invoice is passed the order is transferred to a "paid" file.
3. Sent to the auditor; when invoice is passed, final prices are entered and this copy is sent to department.
4. Retained by purchasing agent, and filed by commodity.
5. Sent to the department concerned, where it is filed in a "current" file until a report of the receipt of material is received (see 7), when a notation of that fact is made and the copy transferred to a "completed" file.
6. Sent to the section concerned, where it is filed.
7. Sent to the person designated to receive the goods. In this case the copy is signed to that effect and sent to the department business secretary; he notes the receipt on his copy of the order (see 5) and forwards the receiving copy to the auditor. The latter assembles the order copy showing receipt with the invoice for that order, and places the invoice in line for payment.

Auditor's copies of orders are examined to ascertain the sufficiency of the budget, and then are filed by departments until invoices are received. When the invoice is identified against the order and prices are entered, the order copy is sent to the department. If the invoice only partly covers an order, a notation of that fact is made on the order and the latter is retained in the unpaid file. From the file of unpaid orders it is possible at any time to determine the amount of orders outstanding against any budget item.

RECEIVING REPORTS

Each department designates the person or persons who are to be responsible for receiving materials and equipment delivered to that department. It is the duty of these persons to certify the receipt of everything delivered to that department. Receiving reports (which are ordinarily in the form of copies of orders returned from the departments) are received by the auditor. A combined file of invoices and receiving reports is maintained. Upon receipt of a receiving report, if the invoice covering it is in the file, the two are assembled together and passed to the completed invoice file pending payment. If the invoice is not in the file, the receiving report is held therein until the invoice appears. A receiving memorandum is used to report part deliveries, and the order copy is returned only after final delivery has been made.

For commodities covered by contract, the delivery ticket is signed by the party receiving the material, is forwarded to the section head or department secretary for approval, and then is sent to the auditor. The receiving-report-invoice file is arranged by departments. Filing therein is by purchase-order number within departments. A system of follow-up is used to make certain that each document is received within a reasonable time after its counterpart and that no invoice is held beyond the discount date.

INVOICES

Firms are directed to send all invoices on purchase orders and all statements on contracts to the purchasing agent. That officer verifies the invoice or statement as to authorization, terms, price, and extensions, and if correct, approves it and forwards it to the auditor. Discounts are deducted by the purchasing agent.

The auditor identifies invoices against the receiving reports if the latter have been received. If not, invoices are filed in the receiving-report-invoice file, pending the receipt of receiving reports. When an invoice is identified against its receiving report, the purchase order is detached and sent to the department with exact cost noted. Invoices with receiving reports attached are passed to the completed invoice file, where they are assembled, summarized and vouchered for payment.

Bills for public-utility service, licences and other items not covered by purchase order or contract are received by the departments, which approve such bills and transmit them to the auditor, who prepares vouchers to cover them.

VOUCHER CHEQUES

When an invoice or group of invoices is ready for payment, voucher cheques are prepared by the auditor as follows:

Original—cheque with detachable schedule of invoices by date or numbers and amounts, to be sent to firm.

Duplicate—copy of cheque and schedule of invoices, on thin paper to be filed alphabetically by firm name.

Triplicate—copy of cheque and schedule used as the cheque register. Invoices and receiving reports to be attached to a stiff filing card, recorded and filed numerically.

Vouchers are examined and approved by the auditor (or chief accountant). They are then submitted to the assistant treasurer for signing of cheques, after which they are returned to the auditor for mailing to payees.

VOUCHER REGISTER

Vouchers are entered in the voucher register in groups, by departments. At the end of each month the voucher register is posted as follows:

Dr. Accounts payable } by departments.
Sundry }
Cr. Cash, by departments.

Copies of voucher cheques constitute the cheque register. The total of cheques as shown by this register must balance with the totals of all entries in the voucher register at any time.

PAYROLLS

Payroll vouchers are prepared and certified by the departments and submitted in duplicate to the auditor. A master payroll cheque in the regular series is used to cover the entire payroll and is deposited in a special account. Cheques in special series on this account are issued, signed by the auditor and returned to the department for distribution. A payroll voucher summary is prepared by the department and submitted to the auditor, approved by him, and passed to the chief accountant for entry. This abstract shows all budget accounts affected and the amount chargeable to each. Payroll vouchers are then filed in a private file in the auditor's office, one copy by cheque numbers, and the other by departments.

ACCOUNTS-PAYABLE REGISTER

All vouchers are entered in detail in the accounts-payable register (form 3), as soon as paid.

FORM 3

Department........................ ACCOUNTS-PAYABLE REGISTER
Section........................... Month.............................

Old balance	Date	Sect.	Acct. No.	Purchase order No.	Description	Amount	Year to date total		Proof

This register is kept in duplicate (or triplicate) by sections, on a bookkeeping machine. It shows the date, purchase-order number, name of payee and amount of each bill. It constitutes a proof and control of the expense ledger, total postings to which in each section must balance with it daily. The duplicate copy is to be sent to the departments at the end of each month. At the end of each month the accounts-payable register is posted to the general ledger as follows:

Dr. Expense } by departments.
Cr. Accounts payable }

EXPENSE LEDGER

The expense ledger (form 4), contains an account with each section. It provides space for budget credits and adjustments, and for entry of expenditures in daily totals. Cumulative totals for the present month and for the year are carried. The ledger is maintained on a bookkeeping machine. Expenditures include accounts payable and transfers. The total postings of the former must check with the accounts-payable register; of the latter, with the transfer register.

FORM 4

EXPENSE LEDGER

Department................ Section............... Account.....................

	July	August	September	October	November	December
Budget estimate						
Adjustment and debits						
Current month						
To date						

Date	Sect.	Acct. No.	Purchase Order No.	Description	Amount	Year to date total	Budget estimate and credits to date
			(Remaini	ng months on	reverse si	de)	

The expense ledger constitutes a control of the budget analysis. Total postings of expenditures to the latter in accounts of a given section must agree with total posting to the expense-ledger account of that section.

BUDGET ANALYSIS

Budget analysis is a columnar record in which a column is kept for each item of the budget of each section. Posting is made from the invoice or transfer voucher or summaries thereof. Total postings to all accounts of a given section must check to the control account of that section in the expense ledger. Budget allowances and adjustments may also be shown as far as information is available.

TRANSFER VOUCHERS

Under transfer vouchers are included all items not paid for in cash. Distinction must be made between interdepartment items, which affect departmental cash accounts, and inter-section items, which do not. These items are entered in the transfer register and posted to the expense ledger and budget analysis.

TRANSFER REGISTER

Transfer register is in the same form as the accounts-payable register, in a different color. It is kept by sections in duplicate or triplicate. All transfer vouchers are posted to it. Together with the accounts-payable register it constitutes a proof and control of the expense ledger. At the end of each month, the duplicate copies are sent to the departments with summary statements of their budget accounts.

DEPARTMENT RECORDS

The departments keep such files and records of their receipts and expenditures as will enable them to verify the accuracy of the reports submitted by the auditor. Complete balanced bookkeeping records need be maintained only by the auditor. Departments are responsible, however, for keeping their expenditures within their budget allotments. For this purpose, a special record is used.

GENERAL-LEDGER BUDGETARY ACCOUNTS

Budgetary-control accounts in the general ledger may be provided if desired. Such accounts would include "Estimated income," to which the estimated income for the fiscal year in accordance with the budget would be debited, and against which the credits to income account would stand as a credit; and "Appropriations," to which budget authorizations would be credited, and against which debits to expense account would stand as a debit. The surplus account would then represent "Estimated surplus" during the fiscal year, and would be credited with estimated income and debited with appropriations. After closing at the end of the fiscal year it would represent a real surplus or deficit.

Accounts such as those described would be kept for each department and would enter into the current balance-sheets of the departments during the year.

Central record and control of encumbrances may also be provided instead of leaving this matter to departments as previously indicated. For this purpose the expense ledger should be modified to provide for entry and liquidation of encumbrances.

CLASSIFICATION OF ACCOUNTS BY SECTIONS

Income and expense are classified first by sections under each department as follows:

General
- A. Administration
- B. House

Programme
- C. Social
- D. Boys
- E. Physical
- F. Industrial
- G. Educational
- H. Employment
- I. Camp

Business enterprises
- N. Restaurant
- O. Fountain lunch
- P. Barber shop
- Q. Bowling
- R. Miscellaneous enterprises
- S. Residence

CLASSIFICATION OF INCOME

Income is classified under each section in accordance with the following schedule:

Account No.

40. Membership fees (men).
    Credit for membership tickets. Charge with refunds.
41. Membership fees (boys).
42. Special fees.
    - 42–1 Clubs
    - 42–2 Tennis
    - 42–3 Bowling
    - 42–4 Tournament and admission fees
    - 42–5 Billiards and pool
    - 42–6 Employment fees
    - 42–7 Natatorium and baths
    - 42–8 Checkroom fees
    - 42–9 Room register fees
    - 42–10 Laboratory fees
43. Handball court rental.
44. Camp fees.
45. Tuition fees.
    - 45–1 Day high school
    - 45–2 Evening high school
    - 45–3 College of commerce
    - 45–4 College of arts and science
    - 45–5 Private tuition
46. Rent of space and equipment.
47. Contributions.
48. Sales of supplies.
49. Meals.
50. Bundle laundry.
    Credit for bundle and finished work. Charge with expense of laundering.
51. Pressing and tailoring.
    Credit income for handling clothing. Charge with expense of pressing and tailoring.
52. Residence earnings.
    Credit with earnings of special endowment funds invested in departmental residences.
53. Endowment.
    Credit with receipts by departments of appropriations from general endowment-fund income.
54. Interest and dividends on investments.
55. Sale of service of employees.

CLASSIFICATION OF EXPENDITURES BY OBJECT

Expenditures are classified under each section in accordance with the following headings, the majority of which are self-explanatory:

Account No.

1. Secretarial salaries.
2. Non-secretarial salaries and wages.
3. Professional service.
4. Special talent.
5. Employees expense.
6. Promotional expense.
7. Retirement fund.
8. Books and periodicals.
9. Operating supplies.
10. Soap and towels.

    Charge soap and towels purchased for use by members and guests. Do not include soap intended for use in cleaning building and equipment.

    Credit sale of soap and rental of bath towels to members and guests.
11. Laundry.

    Expense for laundering goods belonging to association.
12. Fuel, including expense of delivery and storage.
13. Telephone and telegrams.

    Cost of telegrams and of local and long-distance telephone service, including installation expenses but excluding salaries of operators. Credit this account with payments by members and public for telephone service and commission on telephone booths.
14. Light and power.
15. Contract repairs, maintenance and alterations.
16. Garbage, ash removal and sale of scrap.
17. Relief.

    Expense for giving relief to applicants for charity or temporary loans. Credit this account with repayment.
18. Claims and losses.

    Charge with claims for articles lost, damaged or stolen and with accounts written off as bad debts or uncollectable. Credit with charged-off items which chance to be collected.
19. Discount.

    Discount on coupons redeemed through the course of business which have previously been sold in the form of coupon books.
20. Over and short.
21. Appropriations to general agencies.
22. Equipment.
23. Camps.

    Charge with direct expense to the department of sending boys to camp. Departments operating a camp regard it as an operating section and prepare for it a suitable classification of accounts.
24. Adjustments.

    Certain accounts are of a nature which are not supposed to yield finally either a net debit or a net credit. They are mainly "in" and "out" or "suspense" items. Credit this account with camp fees collected for camps operated by the general office or another department. Charge when fees are transmitted.
25. Rent.

    Rental of premises used for association purposes but not belonging to the association. Rental charged against restaurant or other sections for association space which they occupy.
26. Taxes, licences and special assessments.

27. Insurance.
28. Interest.
29. Depreciation.
    Amounts set aside in a reserve fund to provide for eventual replacement of buildings and equipment owing to obsolescence or change of style or policy of work.
30. Sinking fund.
    Charge with amounts paid toward the reduction of mortgages, loans or advances.
31. Residence rentals.
    Amount charged against the residence and paid to the department as a return on the department investment in the residence.
32. Provisions and produce.

CURRENT ASSETS AND LIABILITIES

The classification of accounts for current assets and liabilities of departments is shown by the following departmental balance-sheet:

Current departmental balance-sheet

Current	Current
Cash	Cash overdraft
Petty cash	Accounts payable
Accounts receivable	Notes payable
Inventories	Tickets
	Deposits
	Total current liabilities
	Reserves
	Surplus (income-expense)
Total current assets	Total current liabilities and surplus

CAPITAL ACCOUNTS

Legal ownership of all real property is in the board of trustees. For purposes of operation, however, property is assigned to departments and is considered as owned by them. Consequently, the accounts must show the property of each department and the obligations against that property.

The board of trustees is the recipient of all building and endowment funds. Building funds are often collected by departments and must be applied to their separate building projects. Endowment funds are invested in income-producing properties of departments, and repayments are made by the departments out of their income. Depreciation is also charged, and the funds thus accumulated are used for replacement.

A set of capital accounts for the board of trustees is maintained, and a set for each department. These accounts may be assembled into a consolidated balance-sheet, showing the capital position of the entire association in one exhibit. Because of the peculiar nature of these accounts and the transactions entering into them, they are given here in detail.

Trustee and Departmental Capital Accounts

Principal transactions

(Omitting receipt, purchase or sale of securities, and placing or payment of liabilities to outside parties.)

(1) Receipt of endowment gift in cash
(2) Expenditure for building from endowment funds
(3) Receipt of building-fund subscriptions
(4) Application of building fund to advance by trustees
(5) Operating income applied on building advance*
(6) Reserve for depreciation set up*
(7) Expenditures for building from miscellaneous funds
(8) Expenditures for equipment from depreciation funds
(9) Receipt of miscellaneous income
(10) Appropriation of miscellaneous income for expense
(11) Miscellaneous expense
(12) Appropriation of miscellaneous income to departments

* There must also be a proper entry in the departmental operating accounts.

Board of Trustees Accounts

(with illustrative entries)

Cash

(1) Receipt of gift....	$500,000	(2) Expended for building...	$500,000
(3) Building-fund subscription received	100,000	(7) Expended for building...	20,000
		(8) Expended for equipment.	5,000
(5) Income applied on building........	100,000	(11) Expense..............	3,000
(6) Depreciation reserve........	25,000		
(9) Miscellaneous income........	25,000		(528,000)
	(750,000)		

Advances to departments from endowment funds

(2) Expended for building........	$500,000	(4) From building fund.....	$100,000
		(5) From income..........	100,000
			(200,000)

Advances to departments from other funds

(7) Expended for building........	$ 20,000		

Cash

Departmental building and depreciation funds

(4) Applied on advance.	$100,000	(3) Subscriptions.........	$100,000
(8) Expended.........	5,000	(6) Depreciation.........	25,000
	(105,000)	(12) Income distributed....	20,000
			(145,000)

Income

(10) Appropriated for expense.........	5,000	(9) Received.............	$25,000
(12) Distributed to departments.......	20,000		
	(25,000)		

Expense appropriation

(11) Expended.........	3,000	(10) Appropriated.........	$ 5,000

Endowment funds

		(1) Gift.................	$500,000

DEPARTMENT CAPITAL ACCOUNTS

Land, buildings and equipment

(2) Expended by trustees	$500,000		
(7) Expended by trustees	20,000		
	(520,000)		

Due from trustees—building and depreciation funds

(3) Subscriptions paid in	$100,000	(4) From building fund	$100,000
(6) Depreciation reserve	25,000	(8) Expended	5,000
(12) Income	20,000		(105,000)
	(145,000)		

Due trustees endowment fund

(4) From building fund	$100,000	(2) Expended by trustees	$500,000
(5) From income	100,000		
	(200,000)		

Due trustees other funds

		(7) Expended by trustees	$20,000

Reserve for depreciation

(8) Expended	$5,000	(6) Reserve	$25,000

Building fund

(4) Applied on advance	$100,000	(3) Subscriptions	$100,000
		(12) Income	20,000
			(120,000)

Surplus invested in fixed assets

		(4) From building fund	$100,000
		(5) From income	100,000
			(200,000)

BOARD OF TRUSTEES

Illustrative balance-sheet

Aessts

Cash	$222,000	
Advances to departments from endowment funds	300,000	
Advances to departments from other funds	20,000	$542,000

Liabilities and fund balances

Departmental building and depreciation funds	$ 40,000	
Expense appropriation	2,000	
Endowment funds	500,000	$542,000

DEPARTMENTS

Illustrative capital balance-sheet

Assets

Land, buildings and equipment	$520,000	
Due from trustees—building and depreciation funds	40,000	$560,000

Liabilities and surplus

Due trustees endowment funds	$300,000	
Due trustees other funds	20,000	
Reserve for depreciation	20,000	
Building fund	20,000	
Surplus invested in fixed assets	200,000	$560,000

ILLUSTRATIVE CONSOLIDATED CAPITAL BALANCE-SHEET

Assets

Cash	$222,000	
Land, buildings and equipment	520,000	$742,000

Liabilities and surplus

Expense appropriation	$ 2,000	
Reserve for depreciation	20,000	
Building fund	20,000	
Endowment funds	500,000	
Surplus invested in fixed assets	200,000	$742,000

FINANCIAL REPORTS

As already noted, departments receive from the central accounting office daily income reports, showing income classified by sections and sources, and copies of the accounts-payable register, giving all expenditures in detail. At the close of each month, summary financial reports are prepared, including the following:

(1) Income and expense summary for each department

Income	This month		Year to date		Year to date last year
	Actual	Budget	Actual	Budget	Actual
Administration House Programme					
Total					
Business enterprises					
Grand total					

(A similar statement for expense)

(2) Classified statement of income for each section in each department and summary for the department.

(3) Classified statement of expense for each section in each department and summary for the department.

(4) Current balance-sheet for each department (as already exhibited).

(5) Capital balance-sheet for each department (as already exhibited).

(6) Trustee balance-sheet (as already exhibited).

Association executives receive all of the above, with suitable summaries for the entire association. Departmental executives receive statements of their own departments, with summaries of the entire association.

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EDITORIAL

The Stock-market Collapse

The astounding feature of the decline and fall of the stock market in late October and early November was not the fact of descent itself, but the altogether unreasoning consternation which the public in and out of Wall street displayed. There was nothing at all in the course of events which distinguished the break from its many predecessors. Month after month, even year after year, market prices of securities had climbed to ever dizzier heights. Now and then a Jeremiah uttered warning and lament, but the people gave no heed. They thought and consequently dealt in far futures. What a company might earn when the next generation would come to maturity was made the measure of the current value of its stock. In many cases companies whose operations had never yet produced a penny of profit were selected, fortuitously or under artificial stimulation, as a sort of Golconda of the next voyage; and otherwise sane men and women eagerly bought rights of ownership in adventures whose safe return was on the knees of the sea gods. It was not considered enough to look ahead to what was visible. The unseen was the chief commodity. Good stocks, bad stocks and stocks neither good nor bad but wholly of the future rose with almost equal facility, until at last they were sold at prices which seemed to be entirely uninfluenced by the rates of dividend or even by the earnings of the issuing companies. Government bonds and other "gilt-edged" securities were sold at prices nearer the actual interest yield than were the prices of highly speculative stocks to the dividend return or even to the net earnings, past or soon expected, of the companies concerned. Anything was possible when vision was so blurred by success.

The Public's Blind Optimism

The one possibility which was absolutely certain was that the crazy building would topple; but that was forgotten. Everything was new and differed from the old, said the gamblers. Staggering prosperity, protection by the federal-reserve system, the enormous buying power of investment trusts, general participation in the market—all these and many other factors constituted an impregnable defense against the application of that economic rule which is the counterpart of the physical law of action and reaction. The great pity of it all was that the ease with which fortunes were made attracted the small savings of those who could not afford to bet, and so, toward the end, came what might be called "the stenographers' market." Employees diverted the greater part of their salaries to the purchase of stocks on the plan which is called "margin buying"—a term indicative perhaps of the edge of a precipice. When the inevitable crash occurred they fell destitute. And yet everybody whose voice had been heard had said to the very last that prices of stocks would go up and up until they touched the canopy of heaven. Is it too much to say that we live in a credulous age? Apparently even the people who describe themselves as hard-headed business men were overtaken by the disaster. The whole world had schooled and fooled itself into a belief that what goes up must not come down. Most of the speculators were caught in the collapse, and some crawled up from under the débris with not enough upon them to meet the demands of conventional decency. If it had not been so full of tragedy it would have been ludicrous to see the look of blank astonishment upon their faces as they were exhumed.

Can Repetition Be Avoided?

When an unexpected catastrophe takes place it is the part of wisdom to give thought to the causes and so to guard against repetition. Already countless explanations have been offered. Accusations, plausible or merely petulant, have been plentiful. For instance, it is said the great flood of selling orders which broke the market must have emanated, in part at least, from some of those very investment trusts which were supposed to bar decline—and it must be admitted that trusts which found themselves in a "liquid" position were able to acquire stocks at what seemed like bargain prices. Perhaps they sold out those bargains when the market steadied itself for a while before the fresh dash downward began. Other critics have said that they could see nothing peculiarly estimable in the willingness of bankers and financiers to buy stock after it had gone below a fair price. It is not necessary to dissent from that opinion. That, however, does not supply an answer to the question which is uppermost at present—prevention of return of panic terror to the market and to the market's many tributaries. Is there an answer? Why do men go to Churchill Downs and, having lost all they had on a horse which had only one chance in a hundred, go out of the paddock to suicide? Why will men and women buy tickets in a national lottery—where that pleasant and profitable method of subtraction is practised—knowing that the chance of winning is incalculably minute? Why do suave crooks with greased heads and mucilaginous palms find dolts to buy their worthless stocks and bonds? Why does mankind always make an egregious ass of itself when the opportunity to extract something out of nothing seems to arise?

Well to Face the Truth

No one, of course, knows what will be the outcome of the present chaos, but one thing seems as sure now as it was before the fall, namely, that security prices will ultimately find their proper level. It seems to us that, with comparatively few exceptions, prices at the bottom of the recent depression were still too high. The theory that unstable industrial stocks should sell at more than ten times their annual earnings seems to us untenable, whatever prominent market boosters may say to the contrary. Public utilities, with their acute susceptibility to common sentiment expressed through legislative action, are not so safe that their market values can ignore the possibility of effective assault. Even railways are not always secure enough to justify prices twenty times the earning power. At least it seems so to many who remember the downs of the market as well as the ups. It follows, then, that the present market prices are too high and that further descent may be expected before the point of equilibrium is reached. Prophecy is perilous and usually in error, but it does seem unfortunate that the financial writers of this country are almost unanimous in their pæan of optimism. If we had a little more gloom it might be easier to measure the light. A solar eclipse is observed best through smoked glasses.

"Verification of Financial Statements"

A few months ago an article entitled *Verification of Financial Statements* appeared in THE JOURNAL OF ACCOUNTANCY, and at the same time a brief history of the writing and purpose of the text was presented in the editorial pages. Almost simultaneously the federal reserve board issued a pamphlet reprint of the matter and in the contemporary number of the *Federal Reserve Bulletin* directed the attention of bankers, business men, accountants and others to the procedure recommended in the pamphlet. Since then there has been constantly increasing interest in the subject. The Robert Morris Associates, the national organization of credit men of banks, has commended the publication in the strongest terms. Societies of accountants, groups of bankers and many individual practitioners have approved the programme of audit laid down by the authors of the plan. The American Institute of Accountants no doubt feels a natural and just pride in the product of its committees which wrote the original text and revised it. In a word, *Verification of Financial Statements* has met with the heartiest reception, and its probable future usefulness may be estimated when it is known that it has already been necessary for the government printing office to make extra printings. All this is by way of introduction to a letter which deals with the pamphlet and seems to us to call for reproduction and somewhat extended comment. Perhaps the questions which are asked by the writer of the letter have occurred to other people who feel some misgivings about certain trends of accountancy. However that may be, let the author speak for himself. He says:

> "I am one who believes that the accountant is indispensable to the prosperous adventure of modern business, but I sometimes doubt whether the accountant himself is ware—to use a good, old word in a good, old sense. And so when I recently came across a little brochure apparently written by the American Institute of Accountants and published by the Federal Reserve Board, I felt a keen pleasure in finding that it constituted really a demonstration of a most desirable recognition of the true nature of the burdens which the professional accountant should carry. But I have been wondering how deep an impression it will make. Can you express any opinion about the ultimate effectiveness of the instructions? Will every accountant abide by the recommendations? I am not in public practice myself and I can regard the whole field with the eye of an impartial spectator. To change the metaphor rather suddenly, let me say that it seems to me that the hydrographic office of the profession has issued a new chart. Will it be used to aid navigation or be stowed away in a metal tube? What do you think about it?"

Sailing a Charted Sea

That figure of chart and navigator is peculiarly happy, it seems. Surely a document which shows the dangers of the passage and points out the course which avoids them is a chart that should remain open on the table of every navigating officer whose ship sails the germane sea. What master-mariner would dream of going a voyage without the latest official map of the waters whither he was bound? What harbor pilot, even if familiar with every rock and shoal, would fail to heed the special warnings which a beneficent government issues to safeguard shipping? To apply the metaphor more closely to the present case, let us go a little further. Every marine chart displays not only the general contour of sea and coast, but also the depths "on soundings." The navigator selects his course partly by the draft of his ship. In a small vessel of light draft he may sail safely where his chart shows him six fathoms. In a battle cruiser he keeps far from all but the ample water. That is the discretion which a master must exercise. The chart is there to tell the truth. It is for the man on the bridge to make appropriate use of his knowledge. And when his vessel grounds, with loss of life or cargo, or even of ship itself, and the inevitable investigation follows, the commanding officer must be prepared to adduce conclusive evidence that the accident was due to something outside the scope of his proper knowledge or discretion and that he did indeed sail by chart, if he would stave off the disgrace which every officer most dreads—degradation and recall of his "ticket."

In the Navigator's Discretion

Now this is applicable with striking force to what our correspondent calls a chart of the accounting profession and to its use by the profession. *Verification of Financial Statements* explains quite clearly most of the serious dangers which confront the accountant in one of the kinds of labor which he must perform often. Instructions which will be complete to the least and last detail of every audit will never be written; but what is offered in this pamphlet is the most comprehensive and, withal, concise set of rules which has been compiled; and it reflects the deliberate opinions of men who know what the accountant should do, if anyone knows. Obviously the so-called instructions are not inelastic nor immutable. It would be absurd to contend that the plan must govern every atomic order or juxtaposition. It will all depend, to return to our metaphor, upon the draft of the ship and upon what route she sails. The accountant is charged with moral obligation to steer where he believes no peril awaits. The instructions are definite enough in a sense. They do specify the things that should be done in what might be described as the average case. But not all cases are alike and if the accountant is capable he can be trusted to know when to depart from a plan which has official sanction. This discretionary power of the accountant is mentioned in the first paragraph of the pamphlet and we quote now to demonstrate the absolute necessity for intelligent use of any rule of procedure.

> "The scope of the work indicated in these instructions includes a verification of the assets and liabilities of a business enterprise at a given date, a verification of the profit-and-loss account for the period under review, and, incidentally, an examination of the accounting system for the purpose of ascertaining the effectiveness of the internal check. The procedure described is designed for the auditors' use primarily in the case of industrial and mercantile concerns, but it is also applicable in the case of most other business enterprises. The extent of the verification will be determined by the conditions in each concern. In some cases the auditor may find it necessary to verify a substantial portion or all of the transactions recorded upon the books. In others, where the system of internal check is good, tests only may suffice. The responsibility for the extent of the work required must be assumed by the auditor."

The Selection of a Course

Again, at the latter end of the pamphlet, we find these words: "If the auditor is convinced that his examination has been adequate and in conformity with these general instructions, that the balance-sheet and the profit-and-loss statement are correct and that any minor qualifications are fully stated, the following form of certificate may be used." In paraphrase this might be written: "You may give a clean bill of health if you have made the inspection required by these rules. You are responsible for any failure to observe the rules, but of course there will be cases in which departure may be justified." The accountant who has done all the things which are recommended in the pamphlet can give his unqualified certificate with the comfortable assurance that he has done the best that could be done. Whatever adverse criticism may ensue, he can rest without fear. All that can be expected of any of us is the best in our ability. When the accountant who has not done all these things is brought face to face with accusation of remissness or shortcoming, the onus of exculpation is upon him alone. He may be—in most cases he will be—able to explain his action or inaction by sufficient reasons, but he will be compelled to explain. So it appears that the suggestions in the pamphlet are not as the laws of the Medes and Persians. They point a safe channel to the destination. There may be short cuts, but whoever elects to take them should know the way.

The Course of Wisdom

So enchanting is the figure of chart and mariner that it had almost obliterated the question which our correspondent asks: "Will the chart be used to aid navigation or be stowed away in a metal tube?" Who knows? It is certain that there are many accountants practising individually or in partnership who regard with favor everything which makes for the betterment of the profession and the stiffening of the requirements of practice. It is equally certain that there is an irresponsible fringe which adds nothing to the beauty or usefulness of the profession. That fringe flaps noisily in the wind of publicity. It will be difficult to keep it silent. But no profession nor trade is free of the unworthy. The frequent mistake is to take it too seriously. In accountancy as much as in almost any other profession, the good preponderates. We should like to believe that the pamphlet will be accepted by the entire profession as a statement of what should be done in normal circumstances by the prudent and competent practitioner before certifying that financial statements are in his honest opinion correct. It will not be ignored. It can not be. It will not repose in a metal tube. We believe that the wise will cherish it. What the unwise will do is ever below the horizon.

The Problem of the Mature

What is to be done with all the ancients who cumber the way—those antediluvians who are past the football age—native of the past century? Some of them are in the sere, the yellow leaf of forty years, some even past the portals of the second half century. There is nothing worthy in them. A sickly sentimental law forbids senicide, and we may not slay them. Nature makes its unending demand and they must eat. But what shall be done with them? This is the day of dynamic youth. Every decennial milestone marks the bound of a land of decreasing opportunity and the traveller who passes comes into a new country of lessening hope. The men of thirty are the oldsters. Beyond that age is doddering futility and then oblivion. At least it seems so. No man who has entered into the realm of middle age and has failed or fallen on evil days has much chance of a fresh start in these enlightened times of the dominion of youth. No firm will employ the aged, few the mature, many the utterly inexperienced. It is a great problem and many a mind is thinking about it, but no one is able to do much toward its solution. There are employers of labor of all kinds who profess to deplore the current insistence upon adolescence as the only recruiting ground. They say that there is no good reason for the cult of the callow—no logic supports it. They regret that other employers will not take advantage of the mellow proficiency of men who have served their apprenticeship and have learned how the work should be done; but when the need for new men arrives these very employers are as short-sighted as those to whom they have attributed lack of vision. Preaching the doctrine of fairplay for the trained man is one thing. Its practice is another and, by all the portents, in disfavor. Everybody who employs seems to be imbued with the same fear of the middle-aged or elderly employee. And so a great wrong is perpetrated and a reservoir of incalculable power remains untapped.

Experience Is at a Discount

How utterly silly it all is. It is well to think of it for a few moments. In the practice of accountancy, perhaps more than in any other professional vocation, with the possible exception of the church, experience is the one asset of unchallenged supremacy. It is the one thing above all others upon which success depends. Anyone who is moderately honest and persevering can acquire the theoretical fundamentals of any profession; but accountancy, with all its constantly changing conditions, its rapid development from stage to stage in the business world, is not a mere question of rote. The able man is the man who knows what to do because he has had to do something of the same kind in the past. By the variety of his experience he is made ready to do effectively and well what is to be done when new conditions arise. In spite of these self-evident truths accountants who come to the middle age and are thrown out of employment, perhaps because of circumstances which are in no wise their fault, find it almost impossible to obtain even a hearing from potential employers. This is not idle assumption. It is hard, bitter fact. It can be conclusively demonstrated by the records of one of the agencies of the American Institute of Accountants. That agency, which is called the employment exchange, undertakes to bring employer and employed together to the end that firms needing men may find men who need employment. It is a purely impersonal service without fee or acceptance of responsibility. Scores of men come to the office to be placed on the list of eligibles. Many accounting firms write or telephone for senior or "semi-senior" assistants. The exchange renders a good deal of help and something of the kind will always be necessary; but the point now in mind is not the service which is made possible; rather the unexpected difficulties which are encountered in finding place for some of the men who seem most desirable. Let it once be known that an applicant for employment is old enough to be president of the United States and his fate is sealed. He is not wanted. One wonders sometimes whether it is an accounting staff or a boy choir that is in process of formation. Some firms—far too few—are willing to take men who have good records and are qualified by experience, without much consideration of age; and those firms, let it be said, are among the most highly respected in the country. They have a way of attracting trained men who can enhance the reputation of the firm and will maintain the best traditions of the profession. But most of the employers in accountancy have been inoculated with the virus of a theory which appeared first in factories and shops and gradually spread to offices, the theory that age is the great deciding factor in the value of an individual employee. There are, of course, some kinds of physical labor which are best performed by the splendid vigor of young muscles, but brains are not muscles and are not to be catalogued or valued in the same way. If Americans—and they are the worst offenders—would only learn that mind and matter are neither synonymous nor always concomitant it would be the beginning of a better day for the man who knows something.

Institute's Trial Board Expels Member

The council of the American Institute of Accountants at a meeting held in Washington, D. C., September 16, 1929, adjourned to convene as a trial board for the purpose of adjudicating charges preferred against Andrew J. Quigley of Illinois, a member of the Institute. Thirty-six members of the trial board were present. The presiding officer was Vice-president Lewis G. Fisher.

Mr. Quigley, accompanied by his counsel, William Lister, was introduced.

Charges were presented to the effect that Andrew J. Quigley had been guilty of an act discreditable to the profession in violation of paragraph (e) of section 4 of article V of the by-laws of the American Institute of Accountants in that he had continued to hold the position of president of the American University of Commerce and had issued advertisements of said university stating that he was president thereof when solicitors of that university had frequently made misrepresentations to prospective students, and that he had admitted that he could not control the actions of such solicitors in that regard.

Evidence supporting the charges was presented and the history of the case was explained.

Counsel for the respondent presented his answer and called upon Mr. Quigley as witness in his own defense.

At the conclusion of the trial the trial board went into executive session. It was resolved that Andrew J. Quigley be found guilty as charged. It was also resolved that he be expelled from the Institute and that in publishing the report of the proceedings his name be included. These resolutions were carried without dissenting vote.

The trial board then adjourned.

Terminology Department

CONDUCTED BY THE SPECIAL COMMITTEE ON TERMINOLOGY OF THE AMERICAN INSTITUTE OF ACCOUNTANTS

The special committee on terminology has received a letter asking it to suggest definitions for the terms "recapitalization" and "split-up." While the latter term belongs to the language of the banker rather than of the accountant, the committee has used it on a former occasion and submits the following definitions of the terms in question.

RECAPITALIZATION:

This term is not a precise one. The changes that constitute recapitalization may include authorization and issue of additional stock, change in the character or status of preferred or common stock, substitution of stock for bonds or of bonds for stock, or reduction of capital stock—made desirable by losses, contraction of business, or sale of part of a business.

If part of a large accumulated surplus be transferred to capital account, even without the issue of new shares, it may constitute a recapitalization. On the other hand, the issue of additional stock already authorized and the retirement of preferred stock in conformity with the terms of its issue are not regarded as recapitalization.

Recapitalization is revision of the capital structure; it is a matter of individual opinion how much change is needed to constitute a revision of anything; the vagueness in the use of the word "revision" is precisely the same in degree and character as that in the use of the word "recapitalization."

SPLIT-UP:

This term has come into general use to denote the subdivision of shares into smaller units, without change in either the total amount or character of the issued stock. A split-up, unaccompanied by other changes, is not a recapitalization nor a reorganization and the additional shares are not a stock dividend.

The operation of splitting up stock is, however, frequently accompanied by other changes which do constitute a recapitalization. Such changes may be issue of additional stock, increasing the capital; transfer of part of the surplus to capital; or change in the character of some of the stock, generally a change in the status of preferred stock. (See Middle West Utilities changes and Tung-Sol Lamp Company changes, where both additional capital and change in the status of preferred stock were part of the plan.)

Income-tax Department

EDITED BY STEPHEN G. RUSK

Sanford & Brooks Company, as agent for the Atlantic Dredging Company, was engaged, during the years 1913 to 1916 inclusive, in dredging a part of the Delaware river, under a contract with the United States. In carrying out this contract the company sustained losses in each year, the total loss for the four years aggregating $176,271.88. These losses were deducted from gross income in the company's federal income-tax returns during the four years in the following amounts:

1913	$ 28,241.03
1914	68,117.81
1915	69,705.15
1916	10,207.89
	$176,271.88

Late in the year 1915 the company learned that "certain vital representations, on the faith of which the contract had been accepted, were untrue." Thereupon, the company stopped the work, and in 1916 brought suit against the government for the losses under the contract and for the profits that would have been realized on the basis of a contract subsequently made. The court of claims gave a judgment in favor of the company for the actual losses it sustained on the ground that "it was simply compensatory" of the cost of the work of which the government received the benefit. This decision was later confirmed by the United States supreme court, and the company received in 1920 the $176,271.88, with interest.

The commissioner held that this $176,271.88 was taxable income in 1920, presumably upon the assumption that the amount was the recovery of losses previously deducted from taxable income. A pertinent fact to keep in mind at this time is that the rates of taxation in 1920 were very much greater than they were in the years 1913 to 1916.

The taxpayer contended that the amount received to cover losses did not come within the meaning of the term "taxable income" and, therefore, no tax was assessable in 1920, and offered to file amended returns for the years 1913 to 1916 inclusive, restoring to gross income the losses deducted and paying the additional taxes that would result from such restoration.

These divergent views were considered by the court of claims, and the decision was rendered in favor of the taxpayer, reversing the decision of the board of tax appeals. Judge Northcott of the court of claims rendered a dissenting opinion and it is presumed that the decision will be appealed.

The arguments of the court are most interesting, and as the question at issue is one frequently met a thorough reading of the case is recommended.

SUMMARY OF RECENT RULINGS

The legal reserve of a stock life-insurance company, employing the level-premium plan, is held to constitute capital for excess-profits-tax purposes. (District court of the U. S., eastern district of Virginia. *Atlantic Life Insurance Company* v. *C. L. Moncure.*)

The refund of an overassessment for 1918 is held not barred by the statute of limitations, where a general claim for refund was filed, within the statutory period, subsequent to such period being amended to cover a request for special assessment, the validity of the latter being upheld inasmuch as the facts indicated that the commissioner completely understood the taxpayer's real grounds for refund. (U. S. district court, western district of New York. *Art Metal Construction Company* v. *U. S. of America.*)

A business college is held entitled to "nominal capital" classification for 1917, and to "personal service" classification for 1919, 1920 and 1921. (U. S. circuit court of appeals, fourth circuit. *Strayer's Business College, Inc.*, v. *Commissioner.*)

The taxpayer's claim that a partnership closing inventory was overstated is held not established by the evidence. (U. S. circuit court of appeals, fourth circuit. *W. W. Guy, administrator of the estate of A. Blanton*, v. *Commissioner.*)

The assessment and collection of taxes for 1916 and 1917 are held barred by the statute of limitations, more than five years having elapsed from the dates of filing the returns, waivers filed being held invalid because filed too late. The assessment and collection of tax for 1918 are held not barred because made within the statutory period as extended by a valid waiver. (U. S. district court, middle district of Tennessee. *Columbian Iron Works* v. *Lee Brock, collector.*)

Dividends credited to stockholders on a corporation's books under an understanding that they would not be paid until funds were available and paid to all but the majority stockholder in the year declared, are held to be income to such stockholder in the year credited, in the absence of evidence easily obtainable by him as to whether such dividends were actually available. (U. S. circuit court, fourth circuit. *W. B. Brooks* v. *Commissioner.*)

Commissioner's disallowance of a claim for refund of manufacturer's excise tax on carburetor controls, primers, and gas strainers and air pumps is approved, it being held that the taxpayer did not sustain the burden of proof of establishing that any of the manufactured articles were sold for use other than as automobile accessories. (U. S. court of claims. *The Imperial Brass Mfg. Company* v. *The United States.*)

The compensation received by an attorney as counsel for the Des Moines Board of Waterworks Trustees is held not exempt from tax, it appearing from the findings of fact by the board that the attorney was also engaged in the practice of his profession so that he did not act as a state officer or employee. (U. S. circuit court of appeals, eighth circuit. *David H. Blair, commissioner*, v. *Mary J. Byers, executrix of the estate of H. W. Byers, deceased.*)

The value of real estate in Missouri owned by a decedent resident thereof, such real estate under state law being held not subject to the payment of the expenses of his estate should be excluded from his gross estate pursuant to section 402 (a) of the 1918 act which provides for the inclusion of the value of real property only when subject to such payment and to certain other charges. (U. S. circuit court of appeals, eighth circuit. *Noah Crooks, commissioner*, v. *Benjamin Harrelson, et al.*)

A deductible loss was sustained in 1919 by the taxpayer in the amount of the difference between the March 1, 1913, value of stock held by it in another corporation and the total net proceeds of that stock realized in 1919 upon the dissolution of the corporation. (U. S. circuit court of appeals, ninth circuit. *Walville Lumber Company* v. *Commissioner.*)

A percentage of profits from the operation of a plantation set aside under an agreement to pay the manager a portion of the profits if, over a 10-year period, they amount to a specified amount, is not deductible by the owner on the cash basis.

Accrued charitable pledges are not deductible by a taxpayer on the cash basis.

Profit on the sale in 1929 of a half interest in real estate acquired subsequent to March 1, 1913, should be based on cost, and not on the price paid for the other half interest by an individual taken in as a partner.

Taxpayer's computation of profit from sale of personalty disallowed for lack of evidence. (Court of appeals, District of Columbia. *P. L. Mann* v. *Commissioner.*)

Students' Department

H. P. Baumann, *Editor*

OHIO C. P. A. PROBLEM

The following problem, given by the Ohio state board of accountancy (examination in practical accounting, problem 3, May 16, 1929) has been submitted by a reader for solution in this department.

Problem:

Companies A, B and C, all Ohio corporations, are controlled by stockholders as follows: Three individuals own all of the stock of company A; 65 per cent. of the stock of company B; and 90 per cent. of the stock of company C. Company A produces oil and sells it to company B. Company B operates a refinery, the finished product being sold to company C for retail sale.

Companies A and B had constructed and equipped filling stations and leased these stations to company C. Company C having operated at a loss, the board of directors decided to discontinue operations of the company immediately.

It was agreed that company C would transfer title in its filling-station buildings and equipment to company B as part of its indebtedness to that company. The board of directors of companies A and B entered into a contract as of January 1, 1929, for the sale of all filling-station buildings and equipment owned by their respective companies, and it was agreed that company A should act as sales agent and settle with company B after all expenses of the sale were paid.

Company A has reported the following statement of the sale:

Sale price	$90,000.00
Commissions paid	2,500.00
Legal expense	3,455.00
Taxes paid	850.00
Escrow fee	50.00

You are retained to audit the accounts of the three companies and determine the loss or gain to companies A and B from the above sale. The directors have also requested that you prepare a consolidated balance-sheet of companies A and B as of January 1, 1929, after giving effect to a merger of company A into company B and the issue of 24,500 shares of no-par stock in exchange for the original issues.

Trial balances of the three companies as submitted are to be adjusted as follows:

Provide a reserve for doubtful accounts of 10% of the balances of accounts receivable at December 31, 1928.

Provide depreciation at the following rates:

	Per cent.
Refinery building	5
Refinery machinery and equipment	12½
Field equipment and pipe lines	10
Filling-station buildings	5
Filling-station equipment	12½
Owned equipment—leased	15

Provide depletion of $5,000 on discovery value of wells and $1,500 depreciation on leaseholds.

Accrued account balances on the books are to be adjusted to the following amounts after payment of $850 for taxes by sales agent:

Company A	$3,600.00
Company B	1,300.00
Company C	600.00

The trustee of the bond sinking fund reported a balance of $10,575, after paying interest of $1,600 and earning interest of $675.

Trial balance as of December 31, 1928

Debits	Company A	Company B	Company C
Cash	$ 3,550	$ 365	
Inventory	11,450	28,137	$ 2,425
Accounts receivable	16,750	48,137	8,630
Investment—750 shares of Co. B	27,075		
Account receivable—Co. B	7,450		
Account receivable—Co. C		17,560	
Bond sinking fund		11,500	
Leaseholds	58,750		
Discovery value of wells	225,000		
Refinery buildings		87,800	
Refinery machinery and equipment		118,720	
Field equipment and pipe line	22,000	28,690	
Filling-station buildings	48,600	9,340	8,800
Filling-station equipment	38,400	7,520	11,440
Owned equipment—leased	12,300	15,400	7,440
Deferred charges	750	1,765	280
Deficit			41,090
	$472,075	$375,627	$80,105

Credits	Company A	Company B	Company C
Bank overdraft			$1,325
Notes payable		$ 15,000	
Accounts payable	$ 37,240	25,450	3,650
Accrued accounts	4,600	1,485	625
Account payable—company A		7,450	
Account payable—company B			17,560
First-mortgage 8% bonds		40,000	
Reserve for federal taxes		3,330	
Reserve for depletion	185,000		
Reserves for depreciation:			
Leaseholds	42,000		
Refinery buildings		32,100	
Refinery machinery and equipment		68,700	
Field equipment and pipe lines	8,500	18,880	
Filling-station buildings	3,650	1,765	1,245
Filling-station equipment	6,450	2,650	3,350
Equipment leased	5,750	5,400	2,350
Capital stock:			
Authorized, $1.00 per share	100,000		
Authorized, $100.00 per share			50,000
Equity in 3,000 shares no-par stock		108,300	
Surplus	12,600		
Capital surplus	40,000		
Profit and loss—1928	26,285	46,117	
	$472,075	$375,627	$80,105

Disregard cents in your calculation and round out to the nearest dollar.

Required of candidates

Prepare consolidated balance-sheet of companies A and B after the merger and issue of the new stock.

Submit the number of shares of the new issue for the original issue to stockholders of companies A and B and the new book value per share.

COMPANIES A AND B

Trial balance of company B (after merger)—working papers—December 31, 1928

Assets	Company A Per books	Company A Adjustments Debits	Company A Adjustments Credits	Company A As adjusted	Company B Per books	Company B Adjustments Debits	Company B Adjustments Credits	Company B As adjusted	Eliminations	Balance-sheet of merged companies
Cash	$ 3,550	(4) $ 83,145	(6) $ 14,385	$ 72,310	$ 365	(7) $ 14,385		$ 14,750		$ 87,060
Inventory	11,450			11,450	28,137			28,137		39,587
Accounts receivable	16,750			16,750	48,830			48,830		65,580
Investment—750 shares of Co. B	27,075			27,075					(a) $27,075	
Account receivable—Co. B	7,450	(6) 14,385	(4) 21,835							
Account receivable—Co. C					17,560		(4) $ 13,775	3,785		3,785
Bond sinking fund					11,500		(3) 925	10,575		10,575
Leaseholds	58,750			58,750						58,750
Discovery value of wells	225,000			225,000						225,000
Refinery building					87,800			87,800		87,800
Refinery machinery and equipment					118,720			118,720		118,720
Field equipment and pipe lines	22,000			22,000	28,690			28,690		50,690
Filling-station buildings	48,600		(4) 48,600		9,340	(4) 8,800	(5) 18,140			
Filling-station equipment	38,400		(4) 38,400		7,520	(4) 11,440	(5) 18,960			
Owned equipment leased	12,300			12,300	15,400			15,400		27,700
Deferred charges	750			750	1,765			1,765		2,515
	$472,075			$446,385	$375,627			$358,452	$27,075	$777,762
Liabilities and net worth										
Notes payable					$ 15,000			$ 15,000		$ 15,000
Accounts payable	$ 37,240			$ 37,240	24,450			24,450		61,690
Accrued accounts	4,600	(5) 1,000		3,600	1,485	(6) 185		1,300		4,900
Account payable—Co. A					7,450	(5) 21,835	(7) 14,385			
First-mortgage 8% bonds					40,000			40,000		40,000
Reserve for federal taxes					3,330			3,330		3,330
Reserve for depletion	185,000		(3) 5,000	190,000						190,000
Reserve for depreciation—										
Leaseholds	42,000		(2) 1,500	43,500						43,500
Refinery building					32,100		(2) 4,390	36,490		36,490
Refinery machinery and equipment					68,700		(2) 14,840	83,540		83,540
Field equipment and pipe lines	8,500		(2) 2,200	10,700	18,880		(2) 2,869	21,749		32,449
Filling-station buildings	3,650	(4) 6,080	(2) 2,430		1,765	(5) 3,917	(4) 1,685			
							(2) 467			
Filling-station equipment	6,450	(4) 11,250	(2) 4,800		2,650	(5) 8,370	(4) 4,780			
							(2) 940			
Equipment leased	5,750		(2) 1,845	7,595	5,400		(2) 2,310	7,710		15,305
Capital stock—										
Authorized, $1.00 per share	100,000			100,000						100,000
Equity in 3,000 shares no-par stock					108,300			108,300	(a) $27,075	81,225
Surplus	12,600			12,600						12,600
Capital surplus	40,000			40,000						40,000
Profit and loss—1928	26,285	(1) 1,675	(5) 1,000		46,117	(1) 4,883	(3) 675			
		(2) 12,775				(2) 25,816	(6) 185			
		(3) 5,000				(3) 1,600				
		(4) 8,360		525*		(5) 2,978		11,700		11,175
Reserve for doubtful accounts			(1) 1,675	1,675			(1) 4,883	4,883		6,558
	$472,075	$143,670	$143,670	$446,385	$375,627	$104,209	$104,209	$358,452	$27,075	$777,762

Solution:

Preparation of the working papers on page 460 is a step in solution of this problem. The required statements may be prepared after the following computations and adjustments.

COMPANIES A AND B

Computation of cost of filling-station buildings and equipment
January 1, 1929

Particulars	Company A	Company B	Total
Cost of property sold:			
Filling-station buildings	$48,600	$18,140	$66,740
Less: reserve for depreciation	6,080	3,917	9,997
Cost, less depreciation reserve	$42,520	$14,223	$56,743
Filling-station equipment	$38,400	$18,960	$57,360
Less: reserve for depreciation	11,250	8,370	19,620
Cost, less depreciation reserve	$27,150	$10,590	$37,740
Total	$69,670	$24,813	$94,483
Per cent. of total	73.74	26.26	100.00

COMPANIES A AND B

Statement of loss on sale of filling-station buildings and equipment
January 1, 1929

Cost of property sold (per above)	$94,483	
Sales price	90,000	
Gross loss, before expenses		$ 4,483
Add: expenses—		
Commissions paid	$ 2,500	
Legal expense	3,455	
Taxes paid	850	
Escrow fee	50	
Total expenses		6,855
Loss on sale of filling-station buildings and equipment		$11,338
Distributed as follows:		
Company A—73.74%	$ 8,360	
Company B—26.26%	2,978	
Total		$11,338

COMPANY A

Adjusting journal entries

(1)

Profit and loss (bad debts)	$ 1,675	
Reserve for doubtful accounts		$ 1,675

To provide a reserve for doubtful accounts of 10% of the balance of accounts receivable at December 31, 1928.

(2)

Profit and loss (depreciation)	12,775	
Reserves for depreciation—		
Field equipment and pipe lines		2,200
Filling-station buildings		2,430
Filling-station equipment		4,800
Owned equipment—leased		1,845
Leasehold		1,500

To provide for depreciation for the year 1928 as follows:

Asset	Book value	Annual rate	Depreciation
Field equipment and pipe lines	$22,000	10%	$ 2,200
Filling-station buildings	48,600	5%	2,430
Filling-station equipment	38,400	12½%	4,800
Owned equipment—leased	12,300	15%	1,845
Leasehold	58,750		1,500
Total depreciation			$12,775

(3)

Profit and loss (depletion)	5,000	
Reserve for depletion		5,000

To provide for depletion on discovery value of wells.

(4)

Cash	83,145	
Reserve for depreciation—		
Filling-station buildings	6,080	
Filling-station equipment	11,250	
Loss on sale of filling-station buildings and equipment	8,360	
Filling-station buildings		48,600
Filling-station equipment		38,400
Account receivable—Co. B		21,835

To record sale and loss on sale of filling-station buildings and equipment.

(5)

Accrued account	1,000	
Profit and loss (expenses)		1,000

To adjust accrued accounts.

(6)

Account receivable—Co. B	$14,385	
Cash		$14,385
To record payment to company B of its share of the proceeds of the sale of filling-station buildings and equipment less the amount due company A at December 31, 1928.		

COMPANY B

Adjusting journal entries

(1)

Profit and loss (bad debts)	$ 4,883	
Reserve for doubtful accounts		$ 4,883
To provide for a reserve for doubtful accounts of 10% of the balance of accounts receivable at December 31, 1928.		

NOTE.—The debit side of the trial balance of company B is $693 short of the total of the credit side. While this difference may be adjusted against surplus account, it is added in this solution to the amount of accounts receivable of company B, for no particular reason other than that the editor believes the difference is the result of a typographical error which occurred in copying the problem. It is assumed, therefore, that the correct balance of this account should be $48,137 plus $693 or $48,830.

(2)

Profit and loss (depreciation)	25,816	
Reserves for depreciation—		
Refinery buildings		4,390
Refinery machinery and equipment		14,840
Field equipment and pipe lines		2,869
Filling-station buildings		467
Filling-station equipment		940
Owned equipment—leased		2,310

To provide for depreciation for the year 1928, as follows:

Asset	Book value	Annual rate	Depreciation
Refinery buildings	$87,800	5%	$ 4,390
Refinery machinery and equipment	118,720	12½%	14,840
Field equipment and pipe lines	28,690	10%	2,869
Filling-station buildings	9,340	5%	467
Filling-station equipment	7,520	12½%	940
Owned equipment—leased	15,400	15%	2,310
Total depreciation			$25,816

(3)

Profit and loss (interest paid)	$1,600	
Profit and loss (interest earned)		$675
Bond sinking fund		925
To record the bond-sinking-fund interest per the trustee's report.		

(4)

Filling-station buildings	8,800	
Filling-station equipment	11,440	
Reserves for depreciation—		
Filling-station buildings		1,685
Filling-station equipment		4,780
Account receivable—company C		13,775
To record the transfer of title by company C of its filling-station buildings and equipment as part payment of its account per agreement.		

(5)

Reserves for depreciation—		
Filling-station buildings	3,917	
Filling-station equipment	8,370	
Loss on sale of filling-station buildings and equipment	2,978	
Account payable—company A	21,835	
Filling-station buildings		18,140
Filling-station equipment		18,960
To record the sale of filling-station buildings and equipment, and the loss on the sale.		

(6)

Accrued accounts	185	
Profit and loss (expense)		185
To adjust the accrued accounts.		

(7)

Cash		14,385	
Account payable—company A			14,385
To record the receipt of the balance due from company A as follows:			
Due from Co. A on sale of filling-station buildings and equipment	$21,835		
Amount due Co. A at December 31, 1928	7,450		
Cash received	$14,385		

Statement showing stock distribution to stockholders of companies A and B

	Company A	Company B	Together
Capital stock	$100,000	$108,300	$208,300
Capital surplus	40,000		40,000

COMPANY B

Balance-sheet—January 1, 1929

After giving effect to the sale of all filling-station buildings and equipment owned by companies A and B, and after giving effect to a merger of company A into company B and the issue of 24,500 shares of no-par stock in exchange for the original issues.

Assets

Current assets:				
Cash			$87,060	
Accounts receivable		$ 65,580		
Less: reserve for doubtful accounts		6,558	59,022	
Inventory			39,587	$185,669
Deferred charges to operations				2,515
Other assets:				
Bond sinking fund			$10,575	
Accounts receivable due from company C			3,785	14,360
Fixed assets:				
	Cost	Reserve for depletion or depreciation	Book value	
Leaseholds	$ 58,750	$ 43,500	$15,250	
Discovery value of wells	225,000	190,000	35,000	
Refinery buildings	87,800	36,490	51,310	
Refinery machinery and equipment	118,720	83,540	35,180	
Field equipment and pipe lines	50,690	32,449	18,241	
Owned equipment—leased	27,700	15,305	12,395	
	$568,660	$401,284		167,376
				$369,920

Liabilities and net worth

Current liabilities:		
Accounts payable	$61,690	
Notes payable	15,000	
Accrued accounts	4,900	
Reserve for federal income tax	3,330	$84,920
First-mortgage 8% bonds		40,000
Net worth:		
Capital stock—authorized and issued—24,500 shares of no par value		245,000
		$369,920

Surplus	$12,600		$12,600
Profit for 1928	7,835	$14,678	22,513
	$160,435	$122,978	$283,413
Loss on sales of filling-station buildings and equipment	8,360	2,978	11,338
Net worth	$152,075	$120,000	$272,075
25% of stock of company B owned by company A	27,075		27,075
Book value of net assets merged	$125,000	$120,000	$245,000

As the total net assets of both companies, after the elimination of the investment of company A in company B, were represented by the issue of $24,500 shares of no-par-value stock the book value of this stock is, therefore, $245,000 ÷ 24,500 or $10 per share.

	Stockholders of company A	Stockholders of company B	Together
Distribution of stock on basis of net assets	12,500 shares	12,000 shares	24,500 shares
25% of stock of company B to company A	3,000	-3,000	
Final distribution	15,500 shares	9,000 shares	24,500 shares

PROBLEM FROM ILLINOIS EXAMINATION

Problem:

Operating profits of the Barrow Manufacturing Company for the years ending December 31, 1927 and 1928, were as follows:

Particulars	Year ending Dec. 31, 1927	Year ending Dec. 31, 1928
Net sales	$482,961.87	$679,241.64
Cost of sales	431,827.61	503,645.59
Gross profit	$ 51,134.26	$175,596.05
General expenses	76,258.72	89,533.28
Net profit	$ 25,124.46*	$ 86,062.77

* Red.

At the end of 1927 the management became convinced that an increase in the selling price of the product was necessary if future losses were to be avoided. Accordingly, a general increase of 15 per cent. was made on all selling prices, effective January 1, 1928. At the same time a new plant manager was installed who gave much of his attention during the year to reducing plant costs.

A dispute has arisen between the new plant manager and the vice-president in charge of sales. Both admit that the increase in profits during 1928 as compared with 1927 was due principally to the increase of 15 per cent. in selling prices; but the plant manager insists that savings in factory costs were greater in amount than the increase in gross profits due to the increased volume of sales (i. e., increased quantity of goods sold as distinct from the increase in selling prices), while the vice-president is equally insistent that the opposite is the case.

You are called upon to settle the dispute. Ascertain the amount of increase in gross profit attributable to each of the three factors mentioned.

Solution:

BARROW MANUFACTURING COMPANY

Statement accounting for increase in gross profit

Gross profit—1928			$175,596.05
Gross profit—1927			51,134.26
Increase in gross profit			$124,461.79
Accounted for as follows:			
Increase in gross profit caused by:			
(1) Increase in volume of sales:			
Net sales 1928, at 1927 prices (see below)		$590,644.90	
Net sales 1927		482,961.87	
10.5876% (1927 rate of gross profit) of		$107,683.03	$ 11,401.09
(2) Increase in rate of gross profit, due to:			
(a) Increase in selling prices:			
Net sales—1928—actual	$679,241.64		
Net sales—1928—at 1927 prices (see below)	590,644.90	$ 88,596.74	
(b) Decrease in cost of goods sold:			
Cost on 1927 basis (see below)	$528,109.55		
Actual cost	503,645.59	24,463.96	113,060.70
Increase in gross profit (as above)			$124,461.79

Computation of selling prices and costs of 1928 business on 1927 basis

Net sales—1928: $679,241.64.

In 1928, the selling prices were increased 15% over the selling prices of 1927. Therefore, the goods sold in 1928 would have sold in 1927 for ($679,241.64 ÷ 115%) $590,644.90

Cost of sales—1928: $503,645.59.

In 1927, the cost of goods sold was 89.412% of the selling price, which was increased 15% for the year 1928. The goods sold in 1928, therefore, would have cost in 1927 (89.412% of $590,644.90) $528,109.54.

The increase in gross profit may be summarized as follows:

	Amount	Per cent.
Increase in volume of sales	$ 11,401.09	9.160
Increase in selling prices	88,596.74	71.184

	Amount	Per cent.
Decrease in cost of goods sold	$24,463.96	19.656
Total	$124,461.79	100.000

It will be seen from the above that the dispute must be settled in favor of the new plant manager as the decrease in the cost of goods sold was larger than the increase in gross profit due to the increased volume of sales.

Book Reviews

NEW LEVELS IN THE STOCK MARKET, by CHARLES AMOS DICE. *McGraw-Hill Book Company*, New York. 264 pages.

New Levels in the Stock Market is a book dealing with economics rather than accounting: an accountant feels a certain shyness in offering critical comment on it.

Its purpose is "to describe the revolution that has come upon us unheralded and largely unnoticed and to state the significance of recent developments for the stock market and for business."

It does describe the changes in the stock market since 1900, vividly and clearly, and so far as this reviewer can judge, correctly. The book is the result of wide reading and unprejudiced judgment, but how did the author come to the conclusion that the changes in the stock market had been largely unnoticed? Columbus, Ohio, is not a backwoods village but a wide-awake progressive city, so it is hard to believe that the changes referred to have not been closely followed there just as they have been in New York.

This does not mean that all those who have watched the developments during the great stock boom have seen all that this author has seen and described. On the contrary there will be few who read the book without gaining some fresh and valuable viewpoint.

There is no attempt to account for the great rise in stock prices by means of any new and strange theory, the author harping from beginning to end on the superior methods, business enterprise and courage of the American people; he is emphatically a bull, although he does not allow his optimism to color his facts.

He does follow the idea of American superiority into strange fields, as in the instance where he pokes a little fun at the poor British for wearing an obsolete pattern of shirt, to don which it is necessary to climb through the tails, whereas the progressive American wears a coat shirt, which can be put on and taken off without mussing the hair or even taking off the hat.

The field covered is almost too wide for one book, including the federal-reserve system, customer ownership, Henry Ford, mass production, English bath tubs—or the lack of them—investment trusts, brokers' loans and a hundred other matters.

In speaking of brokers' loans the author has followed the common notion that loans to brokers, in effect loans to marginal stock purchasers, are just so much money taken out of the supply available for credit purposes. Catchings has dealt effectively with this error. The notion might be expected in a member of congress, or a senator, but hardly in the writer of such a generally thoughtful book as this is.

Many paragraphs close with a question mark; the author does not think that he has found out everything about everything, but points out many things that need elucidation. The book closes with a declaration that "it is this sublime faith" (of Americans in the soundness of their business structure) "that furnishes the pillars for the new levels in the stock market and business situation of our time."

Those who have not made a study of the developments in the stock market will find in this book the condensed observations of a capable observer extending over many years; for them it is a short cut to knowledge, reliable as to facts, tinged with optimism as to opinions. And the bullish author will take no hurt from study of the October, 1929, stock market.

F. W. THORNTON.

INVESTMENT TRUST ORGANIZATION AND MANAGEMENT (revised edition), by LELAND REX ROBINSON. *Ronald Press, Co.*, New York. 608 pages.

The revised edition of *Investment-trust Organization and Management* is practically a new treatise on the interesting subject of investment trusts rather than a revision of Dr. Robinson's book published in 1926. This is due largely to the growth of the investment-trust idea in the United States, which offers a comparison with British trusts which was not hitherto available. The author points out that the reason for their creation is due in part to the fact that investment problems are becoming increasingly complicated and that the advantage to the shareholders is the ownership of an interest in a diversified portfolio and, for inheritance-tax purposes, the saving of money as well as annoyance.

The various types of investment trusts are defined and a distinction is made between true investment trusts along the lines of the British type and other investment organizations which are commonly called investment trusts. American investments are divided into two general types—the contractual and the direct. Their set-up, operation and relation to shareholders are explained at length.

CONTRACTUAL TRUSTS

The various phases of the contractual type of company, which is sometimes used to split up the ownership of high-priced securities and also for the issuance of "American shares" in foreign securities, are outlined as follows:

(1) Trusteeship; (2) fixed portfolio with limited powers of substitution; (3) certificate holders like beneficiaries under any trust agreement; (4) restrictions on borrowing; (5) trustee custodian and at times nominal owner of the securities in the portfolio; (6) trustee receives a fee and the management group may also make a spread in the purchase of investments for the trust; (7) no reserves built up out of income, distribution merely being restricted so that corpus is not impaired; (8) certificates usually registered and not easily marketed; (9) income in most instances taxable for federal and New York state income-tax purposes, directly to beneficiaries; (10) additional certificates issued if they can be absorbed by the market provided the underlying investments are not too high.

Benefits of contractual trusts are said to be (1) investor knows composition of underlying securities; (2) reduction of error in judgment of reinvestments; (3) investment in leading corporations which will keep abreast of the times and will participate in expanding economic development; (4) value of investments should increase despite market fluctuations.

STATUTORY OR DIRECT TRUSTS

From a legal viewpoint statutory trusts take the form of Massachusetts or common-law trusts, while corporations organized under the laws of the various states comply with the economic use of the term "investment trusts." Both forms of organization, which are taxed alike under the federal income-tax law, can be used for the same purposes and with similar limitation of personal liability. While common-law trusts, in the states which permit them, are less formal and subject to fewer restrictions, all things being equal the corporate form is preferable and the stock of a corporation is more easily marketed.

A recent practice is to issue allotment certificates or units of preferred and common stock so that those who contribute to the fixed capital also receive the benefits of proprietorship implicit in common stock. The management group often subscribes to all the junior shares of preferred and common stock. When the preferred shares have a par value, the amount received for each unit in excess of the par value of the preferred shares is considered as the amount paid in for the common shares. Sometimes the no-par common stock is given a stated value and any excess received is carried to capital surplus, against which the cost of financing is charged. Since there is usually an excess of assets over the subscription price of the preferred shares, and the dividend on preference shares is in effect a fixed charge, the relation of the various classes of stock to be issued is a matter of vital importance. The type of investments purchased is governed somewhat by the nature of the capital structure.

In order to obtain additional capital at a fixed charge which is less than dividends paid on preferred shares (in Great Britain a very low rate of interest prevails), American investment trusts issue collateral bonds or debentures. The rate of interest depends on the money market and on such special features as the covenant to pay not in excess of 2 per cent. of the federal income taxes and the refund of the personal-property tax imposed by several states. Temporary borrowing should be restricted and be resorted to only in such instances as the anticipation of the issuance of capital or when favorable investment opportunities occur.

Under the topic of taxation the author illustrates the federal income taxes borne by the certificate holders according to the kind of income received by the investment trust and whether or not it is taxed as a corporation or passes the tax to the beneficiaries of the trust. Income taxes imposed by the more important foreign countries are listed and attention is called to the credit allowed by the United States to corporations, but no mention is made of the effect on trusts whose income is taxable directly to the beneficiaries. The taxable status of the various forms of investment trusts under New York state franchise taxes and original issue and transfer taxes receives attention.

Investment problems and policies are fully set forth. Diversification either through prescribed limitation or adopted policy of the management is obtained through investment in several industries, various countries and also in different types of securities. A sufficient number of investments should be in securities listed on the several exchanges and no single investment should constitute a substantial minority ownership of any company, except perhaps allied investment companies. Dr. Robinson wisely emphasizes the fact that investment for quick turnover, marginal trading and short selling are, in general, illegitimate for organizations whose shares are widely held. With the personnel and resources at the command of an investment trust, profitable investments can be made in both "bull" and "bear" markets. The author states that the greatest opportunities for constructive effort lie in following the position which British trusts hold in their association with underwriting groups. In the final analysis the main element of safety for the shareholders is in the ability of the managers properly to administer the funds and make such a report as will maintain the confidence placed in them. Protection of the securities owned is either through complete internal supervision or partly or entirely through an independent custodian, together with proper insurance.

Typical balance-sheet and income statements are used as a basis for the discussion of accounting policies and methods. Four methods of valuation of securities are described. The statement is made that investments are purchased for their yield, and sentimental fluctuations in market values are not of particular interest to investment trusts unless there is a real falling off of earning power, as a forced liquidation of investments should not be necessary. Along the lines of the British practice of using profits realized from sale of securities as a hidden valuation reserve (such profits are not considered as income and are not taxed as such) any unrealized profits or losses should be properly reflected and designated and not merged with realized gains or losses. The writer stresses the use of sound accounting practice (regardless of the lack of legal restrictions) of not declaring dividends when capital funds are impaired. For the benefit of the management, periodical valuations are made using the quotation at the middle point of the day (?) for listed securities and a conservative estimate for over-the-counter securities.

While no detailed procedure of accounting is discussed, the various kinds of transactions of an investment trust which must be recorded on the accounting records are listed. After enumerating those items which are definitely to be taken into income from interest and dividends, the treatment of stock dividends, scrip and rights is outlined in detail. As to these last three sources of possible income, the procedure approved by the treasury department is recommended except, perhaps, when the right to subscribe is exercised: in that case the author says the original cost plus subscription price should be considered the total cost of the increased number of shares. The average cost of each investment is the generally accepted method of calculating profits on securities sold.

Dr. Robinson states that repurchase agreements, which should avoid the characteristics of "wash sales," are conceivably permissible when the seller wishes to establish profits but is anxious to regain his position in the security in question, such agreements to be a basis of mutual advantage between the two principals. As a corollary would it not also be conceivably permissible to use the convenience of repurchase agreements to establish losses as well as profits?

Another source of income is from participation in underwriting of securities, whether or not the investment trust purchases the securities, provided such profits result from actually assuming an underwriter's liability. However, any concession received from participation in a selling group ordinarily should not be taken into income but should be credited to cost of security acquired, as investment trusts are not in the business of distributing securities.

The various bases of compensation used are stock-subscription rights or a straight fee and should safely permit of average earnings from all sources of not less than 7½ per cent. or 8 per cent. on total investment capital. The author discusses and illustrates by tables the relation of dividend distribution to earnings and quotes from the report of the attorney-general of New York state on the advisability of building up reserves in order to meet such contingencies as may arise.

Dr. Robinson concludes his authoritative book by citing examples of specialized investment trusts and of other investment organizations which operate along similar lines. As a sample of a managerial investment trust he mentions the American Founders Corporation and explains its relationship with its affiliated trusts. While the early beginnings of the investment-trust idea were as early as 1893, the International Securities Trust of America, organized in 1921, was the first one organized along the lines of British trusts.

The author gives as the indispensable ingredients for growth of the investment-trust idea (1) stable currency; (2) well organized banking system; (3) preponderance of corporate enterprises in business; (4) wide and trustworthy market for securities; (5) large class of investors and an abundance of investment capital; (6) greater regard for accuracy and honesty in financial statements. He specifically points out the value of financial statements to individual and also institutional buyers. The dangers of arbitrary regulations are mentioned and it is suggested that like the British surveillance, which is exercised at the inception of the company, proper approach to any regulation is through strengthening and clarifying existing state laws.

Finally, the opinion is expressed that even as the British trusts came through the trying periods of the '90's and the world war, so properly managed American trusts should prove to be ever successful and be "an important instrumentality in setting to work along economically sound lines the capital of the masses of investors."

EDWARD A. BENSON.

INTEREST, ANNUITIES AND BONDS, by HERBERT TATE. *Sir Isaac Pitman & Sons, Ltd.*, Toronto. 104 pages.

The scope of *Interest, Annuities and Bonds* is so well defined by the author himself that it seems hardly necessary to amplify his statements. He offers: "A text on the principles of compound interest and annuities, comprising a course of lectures delivered to second-year students in the school of commerce of McGill University, Montreal, and to an evening class of students for the final examinations of the Society of Chartered Accountants of the Province of Quebec." For this and similar purposes, when it can be amply supplemented by the spoken word, the book will no doubt be very useful for the very reason which limits its use to that of a classroom textbook, namely, its compactness.

A great deal of information is crowded by the author into very small space. He is evidently a mathematician by inclination, whose natural medium of expression is the formula, and he therefore is loath to use words when an appropriate combination of a few symbols will express his thoughts so much more concisely. The one exception seems to be the word "clearly," which is freely used because the subject matter is indeed clear to him. It is true that with the exception of the appendix "the material is well within the compass of those having a sound knowledge of elementary algebra as far as exponential or logarithmic series," but how many general practitioners have? The mere fact of having passed an examination in algebra many years ago will not place the average accountant in this favored class, unless he has chosen the mathematics of finance for his hobby or specialty and thus kept himself in training. All others intending to acquire a working knowledge of the subject without the aid of supplementary oral instruction will need much more explanation and less symbols, if they are not to be frightened away. It is regrettable that the wealth of material contained in the well graduated exercises is not made more accessible to this larger group, because the problems, although not new, are presented in such attractive form as to challenge the ingenuity and interest of even casual readers.

The appendix is devoted to a discussion of the force of interest (limit of effective rate), the continuous annuity, etc., which, according to Mr. Tate, are easily grasped after preceding chapters have been assimilated. As a matter of fact, no convincing explanation is given at all, because that would require a knowledge of the theory of limits or the elements of differential calculus. With a set of standard tables, the book closes, promising to be a valuable manual for college instructors and even students. Its usefulness to the practising accountant, however, must be considered somewhat limited. But then, no one claimed that it would be especially suitable for the practising accountant, and, after all, the best that may be said of any book is that it is everything the author intended it to be.

Gabriel A. D. Preinreich.

MATHEMATICS PREPARATORY TO STATISTICS AND FINANCE, by George N. Bauer. *The Macmillan Company.* 337 pages. $2.00.

The word "preparatory" in the title, *Mathematics Preparatory to Statistics and Finance*, should be noted. The purpose of the book, as stated in the preface, was to bridge the gap that often exists between what a high-school student knows of mathematics and what he is expected to know on entering a college business course. It does not deal either with statistics as such or with the mathematics of finance as such.

The chapter on logarithms is unusually clear, as is that on the simpler forms of annuities, but graphs of quadratic equations and functions, while perhaps interesting to some classes of engineers, hardly enter the business life of an accountant.

As this review is intended mainly for the edification of public accountants, it may be stated briefly that this well written little volume would be of little use to them.

Edward Fraser.

Current Literature

Compiled in the Library of the American Institute of Accountants.

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