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Spreading the Peak

D. A. Sargent

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By D. A. Sargent

One of the most serious problems confronting the public accounting profession revolves around the annual peak of auditing and tax engagements which must be completed between January 1st and March 15th of each year. This problem involves the rendering of an adequate and satisfactory service within this limited period, yet requires the maintenance during the entire year of an experienced staff of "in charge" accountants, familiar with the policies and procedures of the particular accounting organization.

The need for the expansion of this limited period is being met by the American Institute of Accountants in publicizing the natural fiscal year closing, although it will undoubtedly require another generation to achieve its complete acceptance by business men. In this article I propose briefly to outline methods put into effect in our own practice which have enabled us to add from thirty to forty-five extra working days to our 75-day peak period. These methods have made possible—

1. Reduction of overtime for entire staff—both accountants and stenographers.
2. Improved service to the client, through considering his work over a longer period.
3. Increased accuracy of reports by eliminating errors in copying.
4. Improved terminology and composition of reports.
5. Elimination of much long-hand writing and checking.

These methods, as will be readily seen, involve the performing of related work for as many clients as possible in sequence. Most of them have been in successful operation in our office for a period of approximately ten years, with some recent improvements which we believe will further increase their effectiveness for the coming year.

Briefly, our system consists of an advance-work program involving the use of "dummies" (extra copies of all schedules, as well as comparisons used in the report letter), which we use in the preparation of our working papers for the following year, together with standardization of many of our work sheets. This may immediately bring to mind the question of whether such procedure would lead to the disregard of pertinent variations in different engagements. Paradoxically, the opposite result is achieved. Because the mind is released during this preparatory period from the impelling necessity of getting reports out on time, we are enabled to give deliberate, mature consideration to client's particular problems, such as system and procedure improvements.

Our preliminary preparation for our 1937 peak season occurred at the time of typing and checking the 1935 annual report. We make "dummy" copies of all report schedules and all comparative data included in report letters. These copies are made on thin paper and are placed in one file folder.

After the completion of the calendar-year audits and bringing the monthly and periodical work up to date, all spare or otherwise idle time of auditors and stenographers is occupied with the preparation of our work sheets, letters, folders, etc., for the subsequent annual or periodical reports, which means that about May 1st we start active preparation for the following year's work.

Our first step is to determine that we have a card for each client which, the reader will note by reference to illustrations 1 and 2, records the progress step by step of the preparatory work, compilation of the report, and its submission. Space is provided opposite each requirement for initialing by the accountant or the stenographer; thus the general supervisor has a visible record of the stage of the preparatory work for any client at any particular time.

The first preparatory work has usually consisted of assigning an accountant who is thoroughly conversant with depreciation problems to the preliminary preparation of all depreciation schedules for future reports. In contemplation of such work, it has been our practice upon depreciation schedules to allow an extra space or more below the last year's additions to each class of fixed assets. Our standard depreciation schedules have the following headings:

Year of addition	Description of asset (with probable future life)	Remaining value (12/31/34)	Remaining life years	1935 depreciation	Remaining value (12/31/35)

In the typing of the 1935 schedules, we have allowed blank spaces following the 1935 additions. On the 1936 work sheet, the accountant prepares a heading starting with "remaining value

December 31, 1935," followed by "remaining life years, 1936," "depreciation" and "remaining value December 31, 1936." He cuts out all portions of the dummy copy of the depreciation schedule which can be affixed to the new work sheet. On the usual engagement, the entire heading can be affixed, with the exception of the change of date. Then under each classification of assets he cuts out the description of the asset and year of addition for affixing at one operation. He then takes the column which was headed "remaining value 12/31/1935," with its typed figures, and affixes it in the starting column of his new schedule. The 1935 depreciation column becomes 1936, by means of incidental changes where assets become fully depreciated (or practically so) and changing former year additions, where only a part-year rate was used. He then completes the depreciation schedule for 1936 upon all assets purchased and placed in use prior to January 1, 1936, computing 1935 depreciation, remaining value 12/31/36, totaling and reconciling the pertinent columns, i.e. remaining value 12/31/35, minus 1936, equals remaining value 12/31/36.

These schedules are subsequently checked for accuracy by a second party prior to being filed in the respective clients' folders. In this way, when the report is completed, ready for typing, all we are required to check are the current year additions or calculations, a matter of a few minutes instead of a half hour to several hours.

In passing, may I remark that we use a rubber cement for affixing the typed portions of the former year's schedules to the new work sheets, and it probably is well also to note that in all cases where dummy typed schedules are so used, we employ typewriter spaced work sheets which we have had ruled to our order.

At about the time the first accountant is assigned to the preparation of the depreciation schedules, a stenographer is assigned to the preparation of standard work sheets. These work sheets are largely the customary work sheets used for reconciliation of petty cash, bank balances, accounts receivable and accounts payable, etc., with special work sheets which we use for additions to fixed assets, analysis of important repair items, etc. It should also be pointed out that wherever we have more than two clients in a particular kind of activity, we endeavor to standardize accounting terminology, classification of accounts, work sheets, etc., so far as possible, although we do not make a fetish of this.

In many cases, we are therefore enabled through the use of carbons to make a quantity of work sheets at one running.

The accountants in their spare time are then assigned to completing the skeleton preparation of work sheets to the greatest extent possible upon each engagement. A comparative balance-sheet is customary upon practically all of our audit reports. The accountant takes the dummy copy of last year's comparative balance-sheet, changes the heading date, cuts out all typed figures, and pastes the remaining portion on a new work sheet. He then cuts out the closing figures for the prior year and affixes that strip to his work sheet, leaving suitable space for the closing figures of the current year. The operating statements, if comparative, are treated in the same general manner, as are all other supporting schedules of the audit report and comparative inserts for the report letter itself. It can be readily seen from the foregoing that in practically all instances we have accomplished three great savings in time: The accountant has not had to write out the complete heading and the name of the accounts in long hand; he has not had to fill in the prior year figures; and we have avoided having to check prior year figures inserted on current work sheets, since they are always carefully checked after typing before releasing the report to the client.

The accountant then begins the preparation of the various audit work sheets. He usually starts by preparing a skeleton working trial balance, filling in all headings and account names from the former year's trial balance. We make a practice of allowing extra spaces at regular intervals to permit the insertion of new account titles wherever necessary.

A work sheet folder is prepared for each client for the next expected engagement. The customary standard work sheets are sorted, and the accountant then inserts all prior year balances or other pertinent amounts on the various audit work sheets and analysis sheets so that when the field audit is started, so far as possible from our present files, it will only be necessary for the accountants in the field to write in the amounts and make their particular comments pertaining to their current review.

During the time the accountants are preparing the work sheets, the stenographic department addresses all bank verification and other confirmation letters, filling in the dates of verification and all other items in the verification letter possible of completion. The envelopes are stamped, addressed and placed in the work sheet folder. The stenographers then prepare all the report folders and mailing envelopes.

The supervising accountant prepares audit procedure instructions wherever possible, prior to the assignment for field audit. In the great majority of cases, we use a standard mimeographed procedure comprising 5 legal sized sheets, upon which the supervising accountant indicates each audit procedure step that should be performed by the field auditor, with any special instructions respecting the type of report to be prepared and any procedure supplemental to or deviating from the standard procedure.

The foregoing preliminary work is usually completed some time between October 1st and November 1st, following which accountants are assigned to the making of preliminary field audits. In this preliminary auditing, the auditor gives consideration to each client's special problems without the pressure of restricted time limits, and having become conversant with them at that time, he has a greater conception of their business problems, internal checks and the system in use. At this time, all detail or test auditing of cash receipts, disbursements, invoices, journal entries, etc. is performed as indicated for the first ten months of the year upon this particular engagement. He further makes an analysis of all fixed-asset accounts, reviewing the major additions and the major items in the repair accounts, etc. He also determines whether or not there has been any major change in the account classifications which would necessitate a revision of work sheets. Therefore, at the time of subsequent audit it is only necessary to inquire about recent changes.

As a result of our prior preparation of pertinent work sheets and our prior brief field investigations, we have a start on each engagement of any size of from 10 per cent. to 50 per cent. of the full amount of time required on the particular assignment. It is true that in some cases we have a little loss of traveling time, and some additional traveling expense, but the improved service to clients well warrants this additional expense, and enables us to accomplish at least thirty days' extra work in our stenographic department, and probably close to 45 days of our accountants' time during the two and one-half months when our time and services are of the utmost value.

It is readily apparent that by setting aside a regular period each year for preparation of work sheets and consideration of their composition and terminology, constant improvements in the scope and text of reports are inevitable. We have simply capitalized otherwise idle time of our staff, recognizing this as an opportunity to render improved service at no increase in fees.

ILLUSTRATION 1 (Front of card)

Name. . . . . Type of service
Address. . . . .
Attention. . . . .

Bank letters	Dates of audit or service				
. . . .					
. . . .					
. . . .					
. . . .					
. . . .					
L/C letters					
Procedure letters Reg. . . . . . Sp.					
Report: Copies. . . . . . H. . . . . . Th					
B/S. . . . . O/S.					
. . . .					
Blue folders: ExH 11″.					
H-11. . . . Th-11. . . . H13. . . . t13					
Mailing envelope:					
Bor G. . . . M. . . . CC.					
Wh.					

ILLUSTRATION 2 (Back of card)

	Dates of audit or service				
Last report dated.					
W/S done—Deprec. schedule.					
Dummy schedules.					
Standard set.					
Completed.					
Folder.					
Procedure sheet.					
Field work—Assigned to.					
Completed and report.					
Tax returns required:					
Federal—					
Corp. . . . . Part. . . . . Indiv.					
C/S. . . . . . Inv. . . . . . S. Sec.					
State—					
Corp. . . . . Part. . . . . Ind.					
Inf. . . . . S. Sec.					