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Accounting for the Liberty Loans

THE SECOND LOAN

BY HARVEY S. CHASE, C.P.A.

The serious difficulties encountered by the twelve Federal Reserve banks throughout the country and by the United States Treasury Department in handling the first Liberty loan convinced those in authority that a complete and thoroughly developed procedure must be established for the second Liberty loan.

For this reason the Federal Reserve Board and the Treasury officers called a conference of all the heads of departments in the Federal Reserve banks who were actually in charge of the Liberty loan transactions, together with the heads of certain divisions and sub-divisions in the United States Treasury, who were likewise directly connected with the handling of accounts of the Liberty loans, including United States certificates of indebtedness issued in connection therewith.

Such a conference of working officers was held in Chicago on August 24th, 25th and 26th. Representatives of the Federal Reserve banks were given opportunity to set forth, in the presence of the Treasury officers, the particular difficulties which each of them had encountered and also to elaborate at length the plans, which had been prepared by each bank, to obviate similar difficulties in the handling of the second Liberty loan. It turned out that these statements and discussions were eminently practical for the reason that those who made them were the very men who had actually experienced the serious troubles in connection with the first loan and were determined to avoid such difficulties in the second loan if it were possible to do so.

The discussions were held, under the chairmanship of Mr. Broderick, representing the Federal Reserve Board, by some thirty-two of the working representatives of the banks and of the Treasury, including from the latter Messrs. Allen, Broughton, Elliot, Hand, Huddleston and Wilmeth, the last being the chief clerk of the office of the Secretary of the Treasury. The other gentlemen represented divisions, such as "loans and currency," "public moneys," etc., etc.

In reporting to the officers of the Federal Reserve bank of Boston in connection with this conference the writer stated the following: "The objects of the conference were successfully attained. The representatives of the Federal Reserve banks were made familiar with the necessities of the Treasury Department under existing laws and regulations, while the Treasury representatives were made acquainted with the difficulties and obstacles which had been encountered by the banks in endeavoring to carry out Treasury requirements for the first loan. The mutual understandings which were reached thereby were exceedingly advantageous.

"In calling for expressions of opinion by the banks, concerning the various subjects for discussion, the chairman followed the order of numbers of the Federal Reserve districts, whereby Boston—District No. 1—was called first. This gave our representatives the advantage of setting forth fully, with strict attention from the other banks, whatever views had been developed in relation to these subjects; particularly in regard to the programme recommended by us for control accounts for the second Liberty loan together with exhibits which we had prepared, including specific forms both for accounting requirements and for statistical purposes.

"On the way from Boston to Chicago these forms had been discussed with the representatives of the New York and Philadelphia banks and had been found to cover, in the main, the conclusions at which both of those banks had previously arrived. Thus these three eastern banks were practically a unit in regard to these conclusions. On arriving at Chicago we found that Cleveland was favorably inclined to the methods proposed by the eastern banks and that Richmond also supported them. On the other hand, Chicago and the western and southern banks, having to cover more extended territories, with greater difficulties of correspondence and transportation, were inclined to provide for more frequent accounting details based upon each day's receipts rather than for a concentration of receipts only upon specific instalment dates as our plans provided.

"After all the banks had been heard from, in much detail, covering Friday afternoon and evening and Saturday morning, it became evident that no single plan could be adopted advan-

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tageously, but that each reserve bank should be left reasonably free to adopt the accounting procedure deemed by it most efficient for its territory. In the main, however, each bank would follow the general requirements which the Treasury should set forth as applicable to all banks. It was then suggested that each reserve bank should issue circulars for distribution to its subscribing banks, which should be based upon a pamphlet of instructions and explanations to be provided by the Treasury officers in the light of the Chicago discussions.

“Each representative of the Treasury Department was given opportunity to explain fully to the representatives of the banks the requirements of law under which his department was compelled to act. In this way the essential reasons for the particular forms and procedure required by the Treasury were made clear; whereas these requirements had heretofore been incompletely understood by the Federal Reserve banks and had frequently been the subject of criticism during the progress of the first loan.”

Questions in relation to handling “interim certificates” and “certificates of indebtedness” were also fully discussed and a friendly attitude of mind was brought about, which proved to be of exceeding value in the handling of the second Liberty loan. This attitude will doubtless continue for the third, fourth and whatever number of loans the future may bring forth.

On September 24, 1917, the Federal Reserve bank of Boston sent out advance information concerning the second Liberty loan in which an important method concerning handling subscriptions was developed as follows: “We are preparing daily report blanks, a supply of which will be forwarded to you, together with addressed envelopes for mailing them to us. Information required on these daily reports will be:

- “(a) Total amount of subscriptions received this day;
- “(b) Total subscriptions previously reported;
- “(c) Total subscriptions received to and including this day.

“The first of these daily reports must be mailed to us at the close of business Wednesday, October 3rd, and should include all subscriptions received up to that time. Thereafter the reports

Federal Reserve Bank of Boston
Fiscal Agent of the United States Treasury

Debit accounts

Allotment collected to date.....		\$366,800,900.00
Interest collected to date.....		328,714.50
		<hr/>
Uncollected		\$367,129,614.50
		41,729,100.00
		<hr/>
		\$408,858,714.50
		<hr/>
Cash collected		\$332,760,093.20
Less:		
On hand, certificates of indebtedness, below	\$24,774,548.61	
Collected on account of interest, above....	328,714.50	25,103,263.11
		<hr/>
Tellers' balances		\$307,656,830.09
Due from depositaries "Liberty Loan account".....		8,254.72
		59,793,191.55
		<hr/>
		\$367,458,276.36
		<hr/>
U. S. Treasury Certificates of Indebtedness redeemed:		
Principal paid		\$120,872,000.00
Interest paid		725,989.61
Due from depositaries, account November 30th issue		6,696,500.00
Cash on hand, account certificates of indebtedness, above.....		24,774,548.61
		<hr/>
		\$153,069,038.22
		<hr/>
Bonds hypothecated as collateral for depositaries.....		\$58,305,350.00
Coupon bonds authorized for delivery.....		197,950,050.00
Registered bonds to be requisitioned.....		21,401,400.00
Bonds to be "authorized" for delivery.....		26,550,450.00
		<hr/>
		\$304,207,250.00
		<hr/>
U. S. Certificates of Indebtedness:		
Definitives delivered		\$139,289,000.00
Definitives on hand		13,676,000.00
		<hr/>
Interims delivered		\$13,676,000.00
Interims cancelled		139,289,000.00
		<hr/>
4 per cent. coupon bonds delivered.....		\$197,950,050.00
4 per cent. coupon bonds on hand.....		45,016,250.00
		<hr/>
Part paid subscription receipts delivered.....		\$62,593,650.00
		<hr/>
War savings stamps issued.....		\$682,255.00
War savings stamps on hand.....		8,297,745.00
		<hr/>
Thrift stamps issued.....		\$109,773.00
Thrift stamps on hand.....		565,227.00
		<hr/>
Aggregate.....		\$1,854,738,229.08

From the Office of
Harvey S. Chase & Company, C.P.A.
84 State St., Boston

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Second Liberty Loan of 1917

Statement of Condition at Close of Business December 31, 1917

Credit accounts

Allotment to first district by Secretary of the Treasury, November 15, 1917	\$408,530,000.00
Accrued interest received	106,799.83
Interest on bank balances.....	221,828.99
Interest on deferred payments.....	85.68
	\$408,858,714.50
Sales Second Liberty Loan.....	\$366,800,900.00
Sales war savings stamps.....	553,678.36
Sales thrift stamps.....	103,698.00
	\$367,458,276.36
Sales U. S. Certificates of Indebtedness:	
Principal	\$152,965,000.00
Accrued interest	20,675.31
Interest on bank balances.....	83,362.91
	\$153,069,038.22
Full paid subscriptions	\$304,207,250.00
	\$1,854,738,229.08
U. S. Certificates of Indebtedness:	
Definitives received from Treasurer U. S.....	\$152,965,000.00
Interims issued	\$152,965,000.00
4 per cent. coupon bonds received from Treasurer U. S.....	\$242,966,300.00
Part paid subscription receipts issued.....	\$62,593,650.00
War savings stamps received.....	\$8,980,000.00
Thrift stamps received.....	\$675,000.00
Aggregate.....	\$1,854,738,229.08

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must be made at the close of each day to and including October 27th. No payment will be received by the Federal Reserve bank with these reports.

"A subscription blank, summarizing all the subscriptions received by you and including your own subscription, will be required after the subscription books are closed. Blanks for this purpose will be forwarded to you in due course.

"Complete detailed instruction regarding all phases of your relations with the Federal Reserve bank in the matter of Liberty loan subscriptions and payments will be made to you as soon as possible after the announcement of the terms of the loan is made by the Treasury Department."

Subsequently the Federal Reserve bank of Boston sent out to banks and individuals a pamphlet giving information regarding the second Liberty loan for the use "only of banks in the first federal reserve district." In this pamphlet there was a schedule of dates on which transactions were expected to be made and there was set forth fully the relation between banks and subscribers; the methods of payments were made clear, and the preliminary reporting of subscriptions was emphasized. In regard to the methods of accounting the following statement was made: "The subject of recommending forms and methods of accounting for the use of member banks and others for the use of subscription transactions has received careful consideration, resulting in the conclusion that it is impracticable to require any one plan solely, inasmuch as the volume of transactions, clerical assistance available and other factors differ materially in different institutions. The Federal Reserve bank of Boston will be glad, however, to make, to those who desire them, recommendations suggested by its experience and to answer, as completely as possible, inquiries from banks throughout the New England district."

By the methods described above, and by other methods which would require too much space to set forth, the handling of the second Liberty loan was brought under control from the day it originated. In connection with the preparation of accounting forms and methods of bookkeeping there was carried on an extensive development of an organization, in skeleton, covering all elements of the Liberty loan requirements. These elements, as in the first loan, were four in number: first, subscriptions; second,

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allotments; third, payments; fourth, deliveries. Over all of these elements there was established a "control department" which had charge of the controlling accounts in a general ledger, which were built up from daily reports and records in each of the subsidiary divisions of the four main elements. By this means the controlling accounts in the second loan were begun at the first scratch of the pen on that loan and have continued in exact control throughout the progress of the transactions.

In a report to the reserve bank dated October 1, under the title "Programme for handling the accounting of the second Liberty loan, etc.," the writer said:

"The elements to be considered in laying out this programme appear to be the following:

"First. Subscriptions. Daily reports of subscriptions received and totals to date will be received by the Federal Reserve bank on and after October 4th from the banks throughout New England, forms for which have already been prepared and sent out to the banks. In addition to other methods for recording these subscriptions, the total of them should be taken up day by day in the Liberty loan journal and charged to an account entitled 'Subscriptions' on the second Liberty loan ledger; at the same time the same amount will be credited to an account called 'Second Liberty loan' in that ledger. The amount of subscriptions from day to day will appear as an asset—with balance on the left hand side. The amount of 'Second Liberty loan' will appear as a liability—with balance on the right hand side.

"These two accounts—offsetting each other—will increase day by day until the close of the subscription period on October 27th. As soon as the total amount of the allotment is received from Washington a journal entry will be made crediting 'subscriptions' and charging 'second liberty loan' with the difference between the amount of total subscriptions in that account and the amount of the allotment from Washington.

"Second. Allotment. Other journal entries will also be made at the same time, transferring the balance of 'subscriptions' account to a new account, 'Allotments-collectible,' which will take the place of 'subscriptions' as an asset thereafter. Similarly, the balance of 'Second Liberty loan' will be transferred to a new account, 'Treasurer United States,' which will represent the lia-

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bility of the Federal Reserve bank to the Treasury for the amount of the total allotment of bonds to be sold and the money collected.

“Third. Payments. When the payments begin to come in from the banks and individuals, the amounts daily, or otherwise, will be taken up on the journal and posted on the ledger to the credit of account called ‘Collections’ and to the debit of ‘Cash’ or ‘Certificates of indebtedness’ or ‘Government deposits’ or ‘Member banks’ accounts respectively. These entries will be made in the journal from properly authorized and initialed tickets or proof sheets from the officers handling the cash, certificates, etc., daily.

“The tickets will be examined and journalized by the Liberty loan ledger bookkeeper and afterwards turned over to the auditor, for final audit.

“From time to time when convenient, or under instructions from Washington, amounts will be turned over to the Treasurer of the United States on the general books of the bank. At such time corresponding journal entries will be made by the Liberty loan ledger bookkeeper crediting ‘Cash,’ ‘Certificates’ and ‘Government Deposits.’ etc., with the amounts transferred and charging ‘Treasurer, U. S.,’ respectively.

“At the same time a similar transfer will be made from collections account (debited) to allotments-collectible (credited).

“In this way the double-entry balances will at all times be preserved, and trial balances in the form of reports may be taken off the ledger by the bookkeeper, typewritten and presented to the governor of the Federal Reserve bank each day at a definite hour.

“Fourth. Deliveries. When the day comes for making the first deliveries of definitive bonds of the smaller amounts, \$50.00, \$100.00, \$500.00 and \$1,000.00, the L. L. L. bookkeeper will make corresponding entries from tickets of the delivery department, and similarly when the larger deliveries to banks are made later these will be taken up daily on the L. L. books.

“Fifth. Custody. By tickets reporting receipts of bonds from Washington or from Boston sub-treasury daily, the bookkeeper L. L. L. will journalize these records, and similarly will enter the delivery of bonds to the delivery department. Temporary receipts will be recorded in the same way.

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"Sixth. Certificates of indebtedness. It may or may not be deemed advisable to keep control over the various issues of certificates of indebtedness in the L. L. ledger. If advisable, the bookkeeper will journalize from tickets in the same manner, posting to properly entitled accounts in the L. L. ledger and drawing off statements from reports to Washington daily—or whenever required."

The statement of condition which is exhibited herein shows clearly the nature of these control accounts. They are seen to be much the same as the control accounts exhibited in the previous article relating to the first Liberty loan, although in the latter case these "controls" could only be established by means of a detailed audit after the transactions were completed. Whereas the total amount of allotments in New England on the first loan amounted to \$265,017,900.00, the total amount of allotments on the second loan has amounted \$408,530,000.00.

In addition to the bond business, as such, accounting controls were necessarily established also over the transactions relating to United States certificates of indebtedness, of which the sales to December 31st amounted to \$152,965,000.00. Different classes of accounts required to control all the transactions are set forth upon the statement of condition in such form that they may be compared with the trial balance of the first loan exhibited by the writer in the January JOURNAL OF ACCOUNTANCY. The second loan, however, has not yet advanced to the nearly completed position attained by the first loan in the exhibit mentioned.

The second loan was not completed until after January 15th, at which date the final payments were due, and it will be, probably, a fortnight or possibly a month after that date before complete conclusions can be drawn concerning "allotments-in-suspense" and "allotments-outstanding," etc., as has been done in the previous article on the first loan. A similar condition exists in relation to discrepancies, if any, which may appear when the total amount of allotments recorded is compared with the amount actually settled for in full. In present circumstances, however, there will be much less liability for errors or discrepancies because of the fact that "interims" in the form used for the first loan, namely in 20 per cent., 40 per cent., 70 per cent. and 100 per cent. certificates in denominations of \$50.00, \$100.00, \$500.00,

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\$1,000.00, \$5,000.00, \$10,000.00, etc., have not been used in the second loan, thereby immensely reducing both the intricacy and the magnitude of the aggregate transactions and likewise reducing the chances of loss or mistake.

Due to the above described programme prepared by the representatives of the Federal Reserve bank of Boston and particularly to the excellent organization of young, efficient and enthusiastic men, the second loan in New England has been handled promptly, accurately and smoothly despite its greater magnitude. Whereas the fiscal day of June 28th on the first loan (20 per cent. payment period) was not closed until August 20th, the corresponding day on the second loan (November 15th) was completed in three days with a smaller staff. This fact speaks volumes for the efficient work of the bank on the second loan and also makes evident the admirable co-operating spirit of the banking institutions throughout New England. Credit for these conditions and results should be given primarily to the good judgment, courtesy and fairness of the governor of the Federal Reserve bank of Boston, Mr. Alfred L. Aiken, and to his efficient staff, particularly Messrs. C. C. Bullen and H. A. Saunders, assistant cashiers in charge of the Liberty loan department of the bank.