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W. B. Reynolds

F. W. Thornton

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By W. B. Reynolds and F. W. Thornton

PART I

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

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

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

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

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

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

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

Verification of Bank Balances, Cash on Hand, Securities, Etc.

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

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

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

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

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

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

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

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

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

THE STEEL MANUFACTURING COMPANY

Cash	*Audit September* 30, 1916		
	September 30.	Balance	$142.16
Counted October 13, 1916			
9:30 A. M.	October 3	Petty cashbook—Dr.	$1,863.41
	" 3	" " —Cr.	222.34
		Balance	$1,641.07
Count:			
Currency notes	$1,200.00		
Cheque—Standard Oil N. J.	220.00		
Vouchers	63.80		
Advances:		8 cents short	
To travelers	35.00		
Coin	122.19		
	$1,640.99		
Ledger balance, September 30th			$ 142.16
Receipts—to October 13, 1916			1,721.25
			$1,863.41
Payments to October 13, 1916			222.34
Balance October 13th, as above			$1,641.07

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

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

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

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

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

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

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

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

When completed, a bank agreement may appear as follows:

Bank September 30, 1916

Balance per cashbook and ledger September 30, 1916		$26,000.05
Receipts—September 30th to October 13th		116,200.00
		$142,200.05
Payments—September 30th to October 13th		89,000.00
Balance October 13, 1916		$ 53,200.05
Cheques outstanding October 13, 1916:		
No. 1863	$ 2,600.00	
1912	80.00	
1913	333.33	
1914	250.00	
1915	116.81	
	$ 3,380.14	
Cashbook balance	53,200.05	
	$56,580.19	
Interest to September 30, 1916, not credited on books	386.00	
	$56,966.19	
Bank charges, not yet taken up	3.10	
	$56,963.09	Bank certificate, October 13, 1916.

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

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

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

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

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

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

The notes should be listed thus:

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

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

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

Notes Receivable

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

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

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

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

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

Count cash on hand
List unentered vouchers
Ink in petty cashbook the debit and credit footings
Make schedule, reconciling with balance at nominal date of audit, as shown by ledger
Inspect notes receivable

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

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

List outstanding unpaid cheques.

Reconcile cashbook balance with bank's statement.

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

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

Certain special features of cash verifications should be considered here.

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

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

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

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

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

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

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

Checking Footings

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

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

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

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

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

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

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

Checking and Testing Postings

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

It is required that those making the check ascertain:

(1) that all entries in the book of original entry are carried, in detail or in total, both to the debit and credit side of accounts in the general ledger

(2) that all entries are posted to the proper accounts

(3) and that all entries are fully understood

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Insurance	126	$180.00	
To Aetna Co.	66		$180.00

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

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

"How much did you say?"

"One hundred and eighty dollars."

"Debit or credit?"

"Debit."

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

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

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

VOUCHING ENTRIES

Vouching falls naturally into several classes, somewhat as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Purchases of postage stamps and some other articles are not covered by vouchers signed by outsiders. If the voucher be signed by one office employe it should be approved by another—preferably a person of high standing in the office. Carfares, overtime pay to clerks, allowances for meals, traveling expenses

—all are covered only by vouchers prepared in the office. All should be covered by proper approvals, and should be watched to detect alterations after approval.

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

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

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

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

Taking Trial Balances

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

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

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

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

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

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

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

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

Vouching Capital Assets and Additions Thereto

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

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

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

In making these notes do not rest content with a blind copy of the details appearing on the bill. It may be a purchase of an automatic screw machine, and in conformity with trade custom may be described on the invoice thus:

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

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

June 3—Cincinnati Mill Mach. Co.

$9,000.00 Automatic Screw Machine
Model B

The general form of the schedule may be—

Machinery

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

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

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

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

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

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

Machinery per ledger

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

Sub-schedule—Machinery
Voucher Record—p. 18

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

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

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

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

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

Checking Inventories

As to Prices:

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

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

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

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

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

As to Amount (Extensions and Footings):

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

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

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

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

Making Schedules

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

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

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

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

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

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

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

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

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

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

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

Finishing the Work

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

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

Percentages

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

Liabilities Not Taken Up.

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

(*To be continued*)