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Recent Changes in the "Net Balance" in the United States Treasury

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

On September 30, 1915, the *Daily Statement of the United States Treasury*, which is published by the treasury department every day, exhibited a "net balance in the general fund" of \$40,898,894.97. On October 1, 1915, the next day, the *Daily Statement* exhibited a net balance in the general fund of \$128,063,545.23, an increase over the day before of \$87,164,650.26.

The writer has recently examined these *Daily Statements* and also other similar statements running over a series of years for the purpose of explaining and justifying this extraordinary increase in the balance from September 30 to October 1, 1915, or of pointing out the errors in the statement of this increase, if there are such errors.

The writer is familiar with the preparation of the *Daily Statements* of the treasury inasmuch as he was engaged in the treasury for various portions of the years 1911, 1912 and 1913, and during the spring and summer of 1913 he investigated the methods and the matter from which the *Statements* were built up daily. Under the instructions of the secretary and the assistant secretary he remodeled the form of the *Statement* during June, 1913, and supervised its publication on July 1, 1913, and for some weeks after that date. He also supervised the publication of the *Statement of the Public Debt* which is issued once a month by the treasury. These monthly statements are published over the signature of the secretary of the treasury.

On the *Statement* of July 1, 1913, the secretary certified as follows:

Treasury Department, July 1, 1913.

The foregoing is a correct statement of the public debt and of the cash in the treasury at the close of business June 30, 1913.

W. G. McADOO, secretary of the treasury.

This exhibits the "free and available" balance in the treasury and banks as \$116,953,837.53. This balance is obtained by subtracting the "current liabilities," \$162,145,156.87, from the "available

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cash," \$279,098,994.40. Among the "current liabilities" exhibited on this statement are "balances to the credit of disbursing officers," \$77,053,640.15, and also "national bank notes: redemption fund," \$22,092,806.00.

In the statement of October 1, 1915, these two classes of liabilities have been struck out, with the result that the so-called "net balance" has been inflated by the sum of these liabilities, as they should have been shown on October 1, 1915.

There is also a third dubious matter in the *Daily Statement* of October 1st, namely, that in that statement are included certain assets always considered by the treasury as "limited tender or unavailable" prior to September 2, 1913. There are, therefore, three serious errors in the figures of the *Statement* of October 1st and there are also other equally serious errors in the explanation, or "announcement," by the treasury which accompanied the *Statement* of October 1st.

The first of these errors relates to "balances to the credit of disbursing officers" which on October 1, 1915, amounted to \$61,089,225.97. These credits to disbursing officers, which have been considered liabilities against the cash assets in the general fund in every statement of the United States treasury since the beginning of such statements up to and including September 30, 1915, were omitted from the statement of October 1st, and thereby the alleged "net balance in the general fund" was inflated by this amount.

The reason why these disbursing officers' balances have always heretofore been considered *liabilities* is this: these funds are credited to disbursing officers for the purpose of providing the latter with the means of promptly meeting outstanding claims against the government. These claims for salaries, supplies, contracts, etc., approximate in amount the moneys advanced to the disbursing officers for the purpose of paying them. These total claims are larger, if anything, than the amounts advanced to meet them and therefore they can never be wiped out by a stroke of the blue pencil. These claims are actual liabilities. They are represented, approximately, by the "disbursing officers' balances." These liabilities must be provided for before there can be any free or net balance in the treasury. This fact is incontrovertible. There has been no question about it since the beginning of the government down to October 1, 1915, and there is really no

question now. The secretary has allowed a serious mistake to be incorporated in the *Daily Statement* since September 30th. This mistake should be promptly rectified and the so-called "net balance" should be reduced by the amount of outstanding disbursing officers' balances (\$61,089,225.97 on October 1st).

An attempted explanation of this extraordinary inflation of the balance was set forth in an "announcement" printed in the *Daily Statement* of October 1, 1915. On examination I have found that this announcement has within it a number of erroneous statements, of which two are strikingly illustrative of what appear to be grave misunderstandings of United States treasury accounts in the minds of those responsible for the "announcement."

The first of these erroneous statements is at the end of the fourth paragraph, which reads:

"As the net balance should represent the funds in the treasury available for paying the current obligations of the government, the amount placed on the books to the credit of disbursing officers should be included therein."

There could scarcely be a more inaccurate accounting statement than this. The writer of the announcement or his sponsors appear to have been either ignorant of accounting requirements or intentionally misleading in their explanation. A "net balance" necessarily means a free balance after all obligations have been provided for. A "net balance" cannot contain "funds available for paying current obligations" as stated in the "announcement." A net balance can contain only funds free and on top of all current obligations. The problem is simple. The elements which should be considered are three:

First, the actual cash and assets; second, the liabilities against the cash and assets; third, the balance of free cash and assets remaining, the "net balance."

It is evident, upon careful examination, that the alleged explanation of this "announcement" instead of justifying the inflation of the net balance should be considered, on the contrary, one of the strongest arguments for not doing the very thing that was done when sixty-one millions of disbursing officers' balances (\$61,089,225.97) were eliminated by the sponsor for this change in form from the liabilities against the cash assets on October 1, 1915.

There is also another item, amounting to \$23,096,069.50,

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which was struck out of the liabilities on the October 1st *Daily Statement*, namely "national bank notes: redemption fund." In the treasury's explanation of this action it is said that the law requires the amount of this fund to be set forth as a part of the "public debt bearing no interest." This fact was known and was fully discussed in June, 1913, when the *Daily Statement* was in process of improvement and at that time it was decided by the treasury officials that this amount should be included as one of the liabilities against the general cash. The law says not only what has been quoted above, but also says that the money received from the banks for redemption of notes "shall be included as a part of the miscellaneous treasury receipts" and "shall be redeemed out of the general cash." If this redemption out of the general cash does not imply that the full amount of the obligation is a liability against the general cash, then words have lost their meaning. This interpretation was accepted by the treasury officials on July 1, 1913, and used by them without question until September 30, 1915. Now, suddenly, it is repudiated and the net balance is inflated by \$23,000,000.00 in addition to the \$61,000,000.00 described above. If it be asked: "What reason can there be for such changes which so enormously inflate the balance?"—it would be difficult to answer otherwise than to acknowledge that we are unable to discover any reason except that the changes make the balance to appear bigger and thereby make the condition of the treasury to appear better than it actually is when compared with the previous statements of its condition.

The third erroneous statement in the "announcement" of October 1st is this: in the eighth paragraph it is stated by the treasury:

"The new *Daily Statement* is on a cash basis. Receipts have (heretofore) been reported on a cash basis, while disbursements have been on a mixed basis. This has proved confusing. Under the new form disbursements, like receipts, represent cash transactions."

This statement is in error. It should be reversed in order to be true. The old form of the *Daily Statement*, up to September 30, 1915, was on an actual cash basis, while the new form is not. The proof of this is simple and conclusive. What is a "cash basis"? For example, if you have fifty dollars in your pocket in the morning and you take in forty dollars during the day and

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pay out sixty dollars during that time, you will have fifty plus forty less sixty, that is to say, thirty dollars in your pocket at end of day.

Apply this to the *Daily Statements* of October 1 and 2, 1915. On the morning of October 2 (close of October 1) Uncle Sam had \$232,749,227.62 in his pocket—the general fund. During October 2nd he received ordinary receipts of \$2,545,763.09 according to the *Daily Statement* of that date, and “disbursed” \$2,212,409.32 in the same time, viz.:

Balance on hand.....	\$232,749,227.62
Add receipts October 2nd.....	2,545,763.09
	\$235,294,990.71
Deduct disbursements October 2nd....	2,212,409.32
	\$233,082,581.39
Evidently the balance at the end of day should have been.....	\$233,082,581.39
But, according to the <i>Daily Statement</i> of October 2nd, it is said to be.....	233,143,194.33
	\$60,612.94
Which is a difference of.....	\$60,612.94

How can such a discrepancy appear if this is a cash statement? Evidently there is a mistake somewhere in the figures or in the explanation—possibly a series of mistakes.

Now look at the liabilities.

On October 1st, these are given as....	\$104,685,682.39
On October 2nd, these are given as....	104,746,295.33

The difference is..... \$60,612.94

which is exactly the discrepancy exhibited in the alleged cash statement above. The answer, then, is clear. The statement includes the transactions in and out of the liabilities which are not cash items. Cash items are receipts and payments only. Cash items do not include increases and decreases of liabilities. The real cash balance is independent of such increases and decreases.

It is plain, then, that the “announcement” is incorrect when it says “the *Statement* is on a cash basis” and when it says that

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heretofore "the disbursements were on a mixed basis" but now "represent cash transactions."

It must be evident that the sponsor for the "announcement" of October 1st was not fully informed concerning the terms which he was attempting to explain, or, if he was informed, he must have been intentionally misleading in his statements.

From July 1, 1913, to September 30, 1915, the *Daily Statement* of the treasury exhibited actual cash transactions and set forth daily a reconciliation with the cash assets on hand. This exhibit then was actual and correct, whereas now the *Statement* is neither actual nor correct.

Now, returning to June 30, 1913, when the "free and available balance" was stated over the secretary's signature to be \$116,953,837.53. On September 2, 1913, in opposition to the views of the writer, the *Statement* was changed by including "unavailable" assets as available. If the *Statement* of June 30, 1914, had been computed on the same basis as that of June 30, 1913, the available balance (1914) would have appeared as \$118,940,979.27. On June 30, 1915, it would have appeared as \$45,650,130.66; on July 31, 1915, as \$33,690,170.86; on November 1, 1915, \$4,746,204.70; and on November 26, 1915, it would have been reduced to \$234,114.64.

On November 26, 1915, the newspapers throughout the country published a statement from the secretary of the treasury which said, among other matters: "We began the fiscal year of 1916 (July 1, 1915) with a general fund balance, not including amounts to the credit of disbursing officers, of \$104,170,105.78." The *Daily Statement of the Treasury* of June 30, 1915, exhibits a "net balance" of \$82,025,716.03, of which "limited tender or unavailable" assets amounted to \$33,503,693.04, and "balance in Philippine treasury"—also considered heretofore as unavailable for general treasury purposes—amounted to \$2,871,892.33. The "free and available" balance, therefore, on June 30, 1915, was \$45,650,130.66, whereas in the secretary's statement of November 26th the "net balance" is said to have been \$104,170,105.78.

If the secretary considered his reasoning in the "announcement" of October 1, 1915, to be correct, why was it not applied to the statement of November 26th? On October 1st it was stated that the disbursing officers' balances should be regarded as a part of the "net balance" in the treasury (not as *liabilities*)

thus inflating the "net balance" by \$61,089,225.97. On November 26th, however, the disbursing officers' balances were included as liabilities in the statement referring back to June 30, 1915, which was used as a basis for calculations concerning the fiscal years 1916 and 1917. There was evidently a shifting of position between July 1 and October 1, 1915, and another shift between October 1 and November 26, 1915. One or the other of these shifts is wrong.

Either these disbursing officers' balances are liabilities or they are not. It requires an extraordinary effort of the imagination to consider them as liabilities on June 30, 1915, but no longer to consider them as liabilities on October 1, 1915; to consider that the "net balance" should be inflated by these credits on October 1st, while on November 26th to decide that the "net balance" of June 30th should not be inflated by them.

The conclusion of the whole matter is this. It is evident that an attempt has been made to give a new and most unhappy interpretation to the term "net balance." Heretofore a net balance was in reality a balance of cash assets above and beyond current liabilities. Now it is stated by the treasury (on October 1st) to be "a balance available to pay treasury warrants, disbursing officers' cheques and matured public debt obligations."

What is the use of a "net balance" with such obligations against it, particularly when the total of these obligations is not stated? What can such an inflated balance be but misleading when any other period of financial history is compared with it? What advantage can there be in a so-called "net balance" which would really be reduced to nothing, or next to nothing, if the actual obligations against it were stated, as they should be stated and as they have been stated heretofore?

It must be concluded, therefore, that these changes recently made in the *Daily Statement* are seriously misleading and very dangerous as precedents. If certain liabilities can be dropped out of sight and the net balance thereby inflated because there has been an excess of disbursements over revenue, what are we to expect? The same reasoning would permit other liabilities to be dropped out of sight at any time later and thus the alleged "net balance" would be inflated again.

This is illustrated very clearly by the *Daily Statement* of November 26, 1915 (the latest I have at hand at writing). In

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that statement the "net balance" is given as \$113,536,682.64. In reality, if set forth as heretofore it would be \$234,114.64. And if the liability for outstanding treasury warrants had been set up, as should be done, this small surplus would actually be changed to a *deficiency*.

The proof of this statement is plain.

"Net balance" as stated November 26, 1915. . . \$113,536,682.64

Deduct:

Disbursing officers' balances (representing outstanding valid claims against the government) \$59,690,628.48
National bank notes: redemption fund ("payable from the general cash")..... 26,564,840.50
"Limited tender or unavailable" assets (silver bullion, subsidiary coin, etc.)..... 27,047,099.02

Total decrease..... \$113,302,568.00

"Available balance" November 26, 1915..... \$234,114.64

Deducting "treasury warrants outstanding," which are in excess of three millions, and also deducting the balances in treasury Philippines, in excess of a similar amount—neither of which has heretofore been included in true "available balance"—would leave the general fund assets in deficiency by, apparently, six millions of dollars on November 26, 1915.