# Correspondence

## Invoice Records

*Editor, The Journal of Accountancy:*

Sir: I am holding the position of auditor of disbursements of a large corporation with general offices located in this city. Occasionally I find it somewhat difficult as well as consuming considerable valuable time to locate or ascertain whether certain invoices have been received or paid, with the present method of handling invoices and indexing payments.

Briefly, the method of handling invoices in use is as follows: Orders are placed by the purchasing department located in New York. After invoices have been received and approved by this department they are forwarded to the superintendents of works, located at various places, for approval as to receipt of material; and at the same time copies of letters accompanying these invoices are forwarded here to the general office. Invoices are then forwarded by superintendent after properly approving to this office for payment. Vouchers are made to cover each cheque issued and are arranged numerically beginning with number one each month, and are also arranged alphabetically, thus: A-1 means voucher number one for January; B-10, is the tenth voucher in February; M-1000 is voucher number one thousand in December, etc. These vouchers are indexed in a book especially prepared for this purpose, space being allowed on the left-hand side of each sheet for entry of names. The sheet is divided lengthwise into twelve sections with the names of the months of the year at the head of each section. A separate page is intended for each letter in the alphabet and all voucher numbers of payments are therefore placed or entered on the page corresponding to the first letter in the name. For example, a cheque is issued to William Smith in February, the voucher would possibly be numbered B-100, entered in index on "S" page under heading of February, and of course opposite Wm. Smith's name which is written on the left-hand side of the sheet.

You will readily understand, where numerous payments are made monthly to any one concern, and when occasion requires that it is necessary to refer to the payment of some particular invoice dated several months back or to determine if a duplicate invoice has been paid, it would frequently happen that many vouchers would be taken out of the files in the search, as you would not know in what month or in what voucher the invoice had been paid. Where several thousand invoices are handled each month the time lost in looking up these items is considerable.

From the above explanation would you be able to suggest a more suitable method of handling and indexing invoices, a system which would not require the attention of many employees in order to keep it in proper condition and at the same time enable one to have at his finger tips a complete record of all transactions?

It would please me very much to see the reply to the above in the columns of THE JOURNAL but prefer that you omit my name and address.

Yours very truly, F. C. J.

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[The above described method of recording invoices can be greatly improved upon by the adoption of an invoice card of the following form—a card to be used for each individual purchase account:

**INVOICE CARD**

**Name:**

**Address:**

| Date of Invoice | Particulars | Amount of Invoice | Deductions | | Net Amount Payable | Disposal of Invoice | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | For | Amount | | Dep't | Sent | Rec'd | Voucher No. |
| | | | | | | | | | |

Upon receipt of an invoice at the general office from the plant (which invoice, we understand from the above letter, has been approved by the purchasing agent as to prices, terms, etc., and by the plant as to the receipt of goods, their condition, etc.), the said invoice should be entered on the respective card giving particulars as to date, kind of goods invoiced or services rendered, amount of invoice, deductions from the gross amount for freight or otherwise, and the balance of the invoice payable.

In case the invoice has been first received at the general office it should also be entered on the invoice cards at once with as many of the above particulars as can conveniently be determined and there should also be noted on the card the disposal of the invoice: that is, the date of its remittance to the purchasing department or plant and likewise the date of its return. This will enable the following up of such invoices as are received directly by the general office. In this manner each individual card will contain all the invoices received from one party. In case a voucher or voucher cheque is used in the payment of these invoices the same may be prepared directly from the invoice card to which they may remain attached until vouchered. When the voucher has been entered upon the voucher record and a number has been assigned to it, this number should be entered in the last column of the invoice card opposite each invoice.

In this manner the cards will—

1. Keep account of invoices received at the general office and sent to plants or purchasing department, follow them up and effect their return;
2. It will facilitate and check the collecting and vouchering of invoices of each individual creditor;
3. It will keep account of the business done with individuals and companies without necessitating the opening of creditors' ledgers;
4. It will constitute an effective creditors' index, giving particulars of the disposal and main features of each invoice.

It may be suggested here that the method of handling invoices described in the above letter could be greatly improved upon by the following changes:

1. Have the purchasing department in New York send to the general office a carbon copy of each order containing full information as to terms and prices;
2. Have all invoices sent directly to the general office by the vendors;
3. Have the general office check all prices and terms from the carbon copies of the purchase orders;
4. Have the plants report the receipt of goods on special forms, which forms may likewise be carbon copies of the original purchase orders with quantities and prices left out and to be sent to the plants directly from the purchase department.

The above changes would centralize the control. All invoices would be received at the general office and checked there as to prices and terms as well as to the receipt and condition of the goods and there would be no necessity for having them leave the office at all. They would remain attached to the duplicate voucher and identified by the latter's register number.—*Editor,* The Journal of Accountancy.]

## Accounting Systems for Public Utilities

*Editor, The Journal of Accountancy:*

Sir: Apropos of your editorial in the December issue *in re* the new accounting system for Ohio public utilities, you will be interested to know that the public service company law of Pennsylvania provides that municipally owned public service utilities must keep accounts and records, and make reports, under the same rules and regulations as may be prescribed for privately owned utilities.

I haven't heard whether or not the commission has yet prescribed a uniform system of accounts, but it seems to be generally assumed that such system will follow closely that prescribed by the interstate commerce commission. There is a clause in the act which provides that:

> "In case of any public service company subject to the jurisdiction of the interstate commerce commission, the systems of accounts, records, and memoranda prescribed by the commission shall conform to those prescribed by the interstate commerce commission" (Art. V, sec. 15).

This, of course, can hardly apply to gas, water or electric lighting utilities, but it is quite likely that the commission will adopt the same plan of following the line of least resistance as New Jersey did, and prescribe all the systems which the I. C. C. has prescribed in federal territory—which is a good thing in that it helps to establish a uniform system all through the country, though there is no doubt that many improvements might be made.

The state of New Jersey also requires every municipality operating any form of public utility service to keep the accounts thereof in the same manner as prescribed for privately owned public utilities.

Yours very truly,

W. H. LAWTON.

Wayne, Pa., December, 1914.

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## "Bank Loans Under the New Conditions"

*Editor, The Journal of Accountancy:*

Sir: The article by F. G. Colley, C. P. A., which appeared in the December number of THE JOURNAL OF ACCOUNTANCY points very significantly to the importance of the federal reserve act from the standpoint of the accountant. This, perhaps, constitutes the chief value of Mr. Colley's article. But from a perusal of it one is impressed by the fact—not expressed in so many words—that a thorough knowledge of accountancy does not consist of an understanding of a narrow and uninteresting field of learning, but necessitates a broad knowledge of a variety of closely allied and interwoven sciences.

Law, finance, banking, transportation, insurance—these as well as other divisions of practical knowledge, which now make up the curriculum of our schools of business and commerce, open up a field which the most ambitious young man must hold in respect, and which to the man of mature years cannot fail to present ever new and widening vistas, tempting him to thought and research.

An excellent bit of supplementary reading for those who have first carefully read Mr. Colley's article is Paul M. Warburg's *Essays on Banking Reform in the United States.* This consists of a series of articles which have been brought together and published by the Academy of Political Science of Columbia University, New York City. The influence which Mr. Warburg's thought has had on the moulding of the federal reserve act is probably second to that of no other individual. His wide experience and extended knowledge of conditions in Europe, as well as America, make his contribution unique and worthy of the consideration of every student of accountancy not already familiar with it.

EARL A. SALIERS.

Lehigh University.

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## Premiums and Dividends

*Editor, The Journal of Accountancy:*

Sir: In reference to the article *May Premiums from Sales of Capital Stock Be Used for Dividends?* by H. Ivor Thomas, C. P. A., in your November number, page 357, I have a case in mind where the directors and the investing stockholders took a different view.

The corporation was a going concern at the time of the following transaction. It was desired to enlarge the plant, as its capacity was being used and more room much needed. As the plant was making a large return on the original investment, the directors decided to set a premium on the stock to be sold for the expansion of the plant. The stock was readily sold. A separate account in the general ledger takes care of this surplus.

One point that came to my attention was the attitude of agreement of both the directors and the buyers of this stock. The original investors had produced a business making a substantial return, had declared and paid dividends, and there was an undivided earned surplus of 25 per cent on the books. This board considered that to sell stock at par under these conditions was an injustice to the old holders of stock, not alone as to the existing surplus but as to the risk in the original start. A premium therefore was fixed near the amount of the surplus, plus the dividends paid the previous year.

The company discounts accounts payable by paying every week on a certain day.

Now, aside from any statutory regulations, the question arises: Can this premium fund be used to pay dividends? If not, then an injustice is worked against the original stockholders when the then existing earned surplus is divided in the form of dividends.

I should like to see this subject discussed.

Yours very truly,

H. S. ACKERMAN.

Ridgewood, N. J., December, 1914.