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# The Journal of Accountancy

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## Some Educational Bearings of Accounting

BY ELMER E. BROWN, PH.D.

*United States Commissioner of Education*

In the first place, let me speak of this subject in its more elementary aspects. Bookkeeping has long had a place with other commercial subjects in the courses of study of our high schools. It has been in fact, with good reason, the central subject of the commercial group, and in many instances the only commercial subject offered in a high school course. I find, indeed, that this subject was given a place in the course of study from a very early period in the history of public high schools. The Massachusetts law of 1826 provided that every town having five hundred families should provide a master to give instruction in several subjects of the high school grade, the first of those mentioned being the history of the United States and bookkeeping. The so-called High School for Boys in the city of New York, a private institution, not to be confused with the public high schools of a later date, provided instruction in this subject. The first report of this school, issued in 1826, made the following significant declaration:

“It should never be forgotten, that the grand object of this institution is to prepare the boys for such advancement, and such pursuits in life, as they are destined to after leaving it. All who enter the school do not intend to remain for the same period of time—and many who leave it expect to enter immediately upon the active business of life. It is very plain that these circumstances must require corresponding classifications of scholars and of studies.”

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It then goes on to mention certain studies which are common to all of the students, bookkeeping being one of that number.

The fact is not to be blinked that much of this earlier instruction was unsatisfactory, and there remains at this present time dissatisfaction with its character and results. Where a separate commercial course has been established, as an after-thought and one calling for only incidental consideration, inadequate provision has often been made for such a course, and it has become a refuge of incompetent and lazy students who have found the ordinary studies of a general high school course too severe for their tastes or abilities.

The business colleges have in many instances done better, in that they have thrown some of their best strength into their instruction in this subject, and have made provision in many ways for practical illustration of its processes and functions. It must be admitted, however, that where mere routine bookkeeping has been stressed as the central and typical subject of a course of commercial instruction, the result has been generally to prepare students to become mere clerks, recorders of the transactions of other men, rather than masters of a business or independent contributors to the advance of business methods.

No one whose attention was fixed upon these more elementary developments of accounting as they have appeared in the schools, could have anticipated the great advance which this subject in its larger and more scientific aspects has made within the past generation. There is no need that I remind you of that advance, when it is an advance with which the members of this Association are more intimately acquainted than I could possibly be, and to which they have themselves in many instances been large contributors.

It is easy to see, however, how this new order of accounting is reflected in the secondary and higher education of the present time. We have, indeed, entered upon a period when, generally speaking, the subject of commercial relations and processes has been brought within the circle of university studies and made a participant in the highest forms of instruction and research, with which our higher institutions of learning are concerned.

We have seen the building up of college and university departments of commercial science, beginning with the Wharton School of Finance at the University of Pennsylvania. We have seen the

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parallel development of the city high schools of commerce, though even now there are only ten or a dozen such schools in existence, and the strengthening of commercial departments in public high schools and private schools of secondary grade all over the country.

I am confident that this passage in our academic history is only in its beginnings as yet, and that its developments in the near future will altogether overshadow everything that has been done in this direction hitherto.

Take for an illustration the new course in railway administration which has recently been organized in the University of Michigan. This course is under the general direction of Professor Henry Carter Adams who, in his capacity as the chief officer in charge of statistics and accounts of the Interstate Commerce Commission, has done so much to unify and improve the accounting systems of our leading railway corporations. Railway accounting, to be sure, is but a minor part of the work in this new university course of instruction, but it is intimately related to every other subject of the course. The outlook of such an undertaking is inspiring. One may safely expect for it a career of large and rapidly enlarging usefulness.

You would be able to criticize and improve upon any statement of the function of accounting which I, as a mere layman and outsider, might offer. Yet it may not be amiss for me to say at this point how your subject appears to such an outsider, who has use for the results of competent work in your field but is not himself an expert in the processes by which those results are obtained.

I look upon modern accounting as a system by which a business is analyzed, its different parts are weighed and measured, their relations one to another, at least their quantitative relations, are ascertained with precision, useful comparisons are instituted, the centers of waste and weakness are laid bare, and the way is made plain for continuous improvement. Now it is clear that such accounting as this involves the mastery of endless details, but it involves also the subordination of details to general principles, and the reference of all measurements and comparisons to a conception of the ultimate purposes toward which the given business is to be directed, and the whole sweep of policy and method by which the ends proposed are to be attained. Here is

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a field for the exercise of a high grade of scientific insight and imagination. The subject is accordingly one suitable for a place among the courses of our universities. It has much to gain from association with other university subjects, and there is also much which it can give in such association.

Such university study of the subject, however, in order to yield its full value, should eventuate in professional expertness—in the ability to apply the general principles to the wide range of particulars to which they are related. The kind of expertness which is attained by the trained public accountant is a professional output which would be a credit and an honor to any university. One of the extraordinarily interesting developments of modern business administration is the appearance of firms of specialists in the large subject of business methods. It is a noteworthy fact that the expertness which is represented in business houses of this type was not, generally speaking, gained from studies in a professional department of a university, but by more circuitous courses of training and apprenticeship. With the modern tendency of our universities to spread over the wider fields of human interest and occupation, I look forward to a time when such expertness and specialism will be the object of regular courses of university instruction.

I might go further and say that our universities, which are now chiefly concerned with science, that is, with the ascertainment and transmission of knowledge of things as they are, will eventually widen their scope to include the field of invention, whether in the fine arts or in the arts of utility. Such specialism in business methods as that to which I have referred is concerned not only with informing itself concerning improvements which *have been* made, but also with promoting the large initiative which takes the lead in improvements which are to be made. So university instruction in the central subject of accounting may be expected eventually to prepare not only the practical routine accountant but the man who employs accounting as one of his instruments in the projecting of new and better things in the field of commercial activity.

Thus far the relationship of accounting to education, of which I have spoken, is that which looks to accounting as a subject of scholastic instruction and research. Before I close, there is another relationship of which I should like to say a word, that

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is, the relationship in which accounting has a direct service to render to the improvement of educational systems.

The office with which I have to do is largely concerned with educational statistics. We look upon the statistical presentation of any educational subject simply as a way of setting forth more precise information concerning that subject than is otherwise attainable. Such exact information is needed by the public at large and by the teaching profession in order that they may have secure grounds on which to base their efforts for the improvement of the schools. In this point of view our statistical tables are intended to be direct contribution to the improvement of educational systems. But it is clear that accurate and useful statistics can be prepared only on the basis of careful and systematic records of the facts reported. In one form or another good statistics are dependent upon good accounting.

It is an extremely difficult matter to secure over so large an area as that of the United States such a degree of uniformity in the recording of educational facts that really useful and reliable statistical tables can be produced, and the use comparisons which such tables are intended to facilitate can be safely made. It was accordingly, a most gratifying thing to the Federal Education Office that the chief accountants of the school systems of a number of our leading cities undertook, a few months ago, to form an association for the purpose of cultivating this important field. A distinguished group of these officers honored us by meeting at the Bureau of Education and there forming such an organization. I look forward with great confidence to the results which this National Association of School Accounting Officers can accomplish. I am hopeful that their progress will be secure, that within the next year or two we may be able to see a substantial improvement in the educational reports of our great school systems all over the land. The Federal Census Office, with its tradition of wide cooperation, is lending its assistance to this movement. An important committee of the Department of Superintendentence of the National Education Association is working to the same end. The Bureau of Education, to which the reports affected by such movement eventually flow, is using its best endeavors to serve as a convenient and helpful coordinating center for this whole undertaking.

I desire at this point to express my warm appreciation of

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the assistance rendered by members of this Association along with others interested in our public schools, in this general endeavor to make our reports of American education more accurate, more informing, and more conducive to the advance of educational improvement.

### **Discussion**

BY W. R. GRAY, B.L., M.C.S.,

*Assistant Professor of Accounting in the Amos Tuck School of Administration and Finance*

You may well wonder, perhaps, that one coming from one of the ancient colleges of New England, situated in one of the hill towns of New Hampshire, should even know what an accountant is, but the fact remains that we are becoming acquainted with accountants more and more, and the fact remains also that for ten years we have maintained a school,—a graduate school,—of administration and finance, which has given serious attention to the training of young men, graduates of college, for their future careers in business. Within the past few years we have given further and more intensive effort to the training of a few young men for the practice of accountancy.

I might say that our purpose in branching off from the lines of general business, and including also in our curriculum special training for accountancy, was the result of certain influences at work. In the first place, we found that the demands of business men,—and from our own information the demands of the business conditions of this country in general,—called emphatically for the performance of such services as the members of the American Association perform. We found, moreover, that many of the young men we had in our classes were demanding special training for a business profession which is commanding more and more a dignified position in common with the other professions.

There is another aspect of accounting and accountancy which led us further into the fields of accounting education, and that is the aspect of accounting which seems to make it one of the social sciences. We believe that accounting and accountancy is being recognized more and more as a social science, and our line

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of reasoning is somewhat like this: that there is commonly accepted nowadays to be no more promising method by which commercial and financial and industrial affairs in general shall be regulated than through the element of publicity. It follows that where publicity is attempted, and where publicity is made effective, such publicity must be based upon accurate data, that data must be clearly presented and compiled, and there must be somebody to whom the public may look for the confirmation of the accuracy of data. I need not draw your attention to the fact,—the self-evident fact,—that the one body of men upon whom this confirmation,—the responsibility for this confirmation of data regarding publicity and corroboration of matter rests,—are the public accountants, and especially the certified public accountants.

It is these influences, which I have just cited, which have inspired us to enter this field.

Now, we have certain rather definite conceptions of what the future of accounting and accounting education must be. We believe that accountancy as a profession is becoming recognized as a profession that will eventually demand a training which equals the training that is accorded to men entering the professions of law, engineering and medicine,—these professions to-day demand in their highest form a preliminary liberal education, on the theory that you must train your man before you train your expert. We believe also, in order to effect the highest form of education, that attention must be directed most seriously from now on, as it has been within comparatively a few years, to the development of the science of accounting.

I think that perhaps you will agree with me in my statement that we have only scratched upon the surface of the science of accounting, that, as Dr. Brown's paper has intimated, the field for the development of accounting methods, and the development of accounting law and principles, is hardly in more than its infancy.

In addition to developing the science of accounting, I think it is evident to all of us, whether we are engaged exclusively in the matters of education or only partially, that one of the great factors upon which the success of future accounting education depends is the participation, by public accountants, in that progress; that participation may take usually two forms, either as contribu-



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tors to the science of accounting, or as participants in the actual process of teaching. Those of us who attempt to teach accounting now have ample evidence of the part that accountants have taken in building up the science of the subject,—practically all the data that we have to work with have been the result of your work and observation. We have to thank you also for participation, and your aid to us, in the actual process of teaching. It is along this line that I believe your services are especially needed, and along this line will be where we shall make further demands on you in the future.

I wish to urge on you especially, if the opportunity comes to you to assist in institutions in the teaching of accountancy, that you take advantage of the opportunity, not only for the sake of the school, but for your own sake. Those of you who have never tasted the sweets of teaching will realize, after the experience, that the profession of accountancy offers great possibilities, other than in the practice of accountancy, and the more you become involved in the art of teaching young men the principles and methods which govern in your profession, the greater will you feel the reward of your profession to be.

I wish to thank the President and the Association for my invitation to be present at your Convention, and I know that I shall derive great pleasure and benefit from it. (Applause.)

### Discussion

BY JOSEPH FRENCH JOHNSON, D.C.S.,

*Dean of The New York University School of Commerce,  
Accounts and Finance.*

Some of you will recall that this subject was discussed at St. Paul three years ago, and that three or four members of the teaching profession prophesied that accounting was destined to become more and more important in the educational world. I am glad to say that we do not have to appear here now in the role of prophets; we are able to talk, rather, about what has been done for accounting by the schools and the universities. I am not going to undertake to tell you that in detail, for it would be too long a story. Most of you know that many universities in the

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United States are now teaching, or trying to teach, accountancy. One of the reasons why I can only say that the universities are "trying to teach" accounting, is that few men are trained to be teachers. Teaching is a profession or an art like yours, a difficult one to learn, and universities have found it an almost impossible task in these past ten years to find men who can teach accounting. Those who knew it couldn't teach, and those who could teach didn't know it, (laughter)—I have done a lot of the teaching myself. (laughter and applause).

When I was a boy I had the choice, in preparing for College, between the classical course and the scientific course. There was another course that was put in for girls—and some of the fellows took it, too—it was the "literary course," and was considered easy. Every young fellow who had any brains took the classical course, and the fellows who weren't quite sure of being able to get through, but had some taste for knowledge, were shoved into the scientific course, where they had fourteen weeks in mathematics, fourteen weeks in chemistry, fourteen weeks in physiology, and so on. The very weak ones, the poetical and the dreamy, took the literary course. Those who were in the classical course looked with scorn on the other two courses. In College we found the same division of studies; the scientific course was not for the intellectuals, nor was the literary course.

Now it is all changed. The sciences have won a sure position in the university curriculum, and no student needs to apologize because of his interest in chemistry or physics. Twenty years ago no one in the educational world knew anything about accounting. Bookkeeping was apparently something which would never knock at a University door. At the present time accounting as a university and college subject stands about where the physical sciences stood twenty-five years ago. In other words, you still have to apologize for it a little, for our colleagues in other departments of the university are inclined to think we are not teaching a real science. Accounting stands where the natural sciences did in education a quarter of a century ago. It still has its place to make, its prestige to win. This it will do, for it is founded on a science, just as are law and medicine, and the other intellectual callings of men.

It is a science to which the educational world has not yet given enough attention. The fact that the accounting profession

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in the United States has been the first of the business callings to demand that it be viewed not as a mere business, but also as a profession, is something which, I think, will go down in history to the honor and credit of the practicing accountants of the United States in the years 1900 to 1910. (Applause).

### **Discussion**

BY J. B. GEIJSBEEK, LL.B., M.C.S., C.P.A.

*Dean of the School of Commerce, Accounts and Finance of the  
University of Denver*

I was exceedingly sorry that I could not hear the discussion on Dr. Brown's paper. Unfortunately, I was placed by the President on the Credential Committee which was holding a session while this paper was being discussed. I therefore do not know what has preceded me, and I am at a disadvantage, but inasmuch as you insist upon hearing from me, I will give you a brief history of how the Denver School came to be established, and that will give you an idea of conditions there, and what we have there to-day.

A few years ago the C. P. A. law was passed in the State of Colorado, and naturally Denver,—the Paris of America, according to the *New York Herald*,—inasmuch as it has established itself as the center of population in Colorado, (which for that matter it always has been) became the headquarters for the Board and all its members lived in Denver. I happened, unfortunately, to be the Secretary of this Board, and when the first candidates for examination came up, the result was disgusting. Very few of the candidates who applied showed any preliminary study,—there was no application or preparation,—only two showed any study whatever,—and afterwards it appeared that the Board had judged rightly, because we heard from three parties that not one of them had given more than a few days time to preparation for the examination.

I then told the other members of the Board, that it was important to provide for the education of the young men, for otherwise we could not insist on a high standard in our questions and examinations. Naturally, when the question arose as to the

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establishing of an educational institution no one desired to put the bell around the cat, so, after some delay I finally consented to be appointed chairman of a committee to investigate the matter after I had insisted that the work should go on and it should be accomplished. The committee's report, of course, was favorable and from it it was judged that it was a good thing to start a school—and as some have told me since, just to humor Geijsbeek and to let him ride his hobby.

The Committee was made permanent and I remained as Chairman of the permanent Committee. This resulted in the organization of the school and its faculty, and I was elected its Dean, to my great sorrow.

I have worked hard on the thing, and as I am, like my friend Mr. Wilkinson, a good stubborn Irishman, therefore I went at it with a sledge hammer, and we have made a success so far. At the time of organization I was not able to devote much time and attention to it, as at that time I had a nervous breakdown, and had to leave for Europe. On my return I learned, to my surprise, that some of my associates had practically stolen the entire contents of the New York School catalogue. After investigation I thought it was a good scheme, for they had had a number of years of practical experience behind them; besides Dean Johnson had permitted it. So we have patterned our school after the New York School.

The question of financing the school came up, but it was impossible to raise money; so I gathered around me a few faithful men and told them what I was standing for, and what our school should be. They agreed with me that they were entirely willing for three years to give their time and attention, if necessary, free of charge. The result was that I had a faculty that didn't cost anything, and as a consequence we did not have to guarantee any amount like our famed accountants in Chicago.

After a year of struggle, with the much appreciated aid of Dean Johnson, who gave us a line on text books and notes about the work that was to be done, we had a satisfactory class of about twelve. The class advertised the school; we sent out a thousand catalogues. When they had made the rounds we had a second class of twelve and to-day, with a population which equals the State of Kentucky, or two hundred and fifteen thousand inhabitants in the City of Denver, we have fifty students,—which

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compared with the New York and other schools, I believe, is very favorable.

The faculty is gradually increasing. Nothing succeeds like success. The first year I had exceedingly great difficulty in obtaining the co-operation of the certified public accountants, but to-day, out of the seventeen professors connected with our school, we have eight who practice public accountancy, and with whom I am well pleased and satisfied. They have all done excellent work, and the school has made excellent progress, and seems to be in a very flourishing condition. In regard to the curriculum, I wish to state that I found out that special courses are a financial burden to any University; therefore I promptly ruled them out. We decided that there were two things to be considered as a means to success: not only the financial part but the advertising that the students would give us if they left the school satisfied. I had just gone a few years ago through the law course of a University and therefore I knew that special students never are a recommendation to educational institutions. They most always leave dissatisfied. We wanted them to stay and see it through and then judge of our work; therefore all the lectures we give are obligatory, there are no elective courses and students must take the entire course, which consists of 32 subjects and covers a period of three years.

We have our lectures from 5:40 to 7:40 in the evening. We first had them later in the evening, but we found out that that interfered with climatic conditions and social affairs and the wives objected. All our students, with the exception of four are married men and range in age from 27 to 57 years. We have all the subjects the New York University gives with the exception of Real Estate, Advertising and Insurance. We had no call for insurance because we have but two Home Insurance Companies. However, recently the Northwestern University has instituted a course in Insurance and we have been called upon by our University authorities to insert in our catalogue this branch of the curriculum and we will provide for it next year if we can find an instructor. Advertising and Real Estate we don't need, on account of local conditions.

We have Banking and Railroad Transportation, Accounting, Practical and Theoretical, Law and Economics. I am a great believer in the advantage of a knowledge of law to the account-

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ant; I believe that no accountant can do his work properly unless he is at least three-quarters of a lawyer.

As to the financial outcome we charge eighty dollars cash or ninety dollars on time (laughter), and therefore we have had some revenue. Our expenses are heavy and a great deal of the resources of the school went toward the establishment of the Accountancy Library—and we believe that we have many of the libraries beat even if we are only two years old.

The Professors divide up the proceeds after all expenses have been paid (laughter)—and the amount has gradually increased which has been a great stimulant! (more laughter). I have no doubt whatever, that if I would ask someone to aid us that I could get the proper assistance, for as I have said before, nothing succeeds like success.

The students are well pleased and are well satisfied and are walking advertisements. We have no complaint to make about aid from the practicing Public Accountants; they have stood by me loyally and without these men I would have accomplished nothing.

I have given you a resume of what we have accomplished in Denver in the hope that it may stimulate other cities to do the same thing. (Applause.)

## Discussion

BY H. T. WESTERMANN, C.P.A.

*Lecturer on Advanced Accounting in the St. Louis City College of Law and Finance*

. In Saint Louis there is a school offering a course in accountancy, The City College of Law and Finance, organized about two years ago along the lines of the Wharton School. The Missouri Society undertook to provide instruction in the course in accountancy, but found it a difficult task. In the first place there was no one member who could give to the work the time it really demanded. In the second place, being unaware that an outlined course was available, we attempted to prepare one, but it proved to be unscientific and in consequence not wholly satisfactory. In the third place, the uneven preparation of students was a great handicap.

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This year these difficulties have in a large measure been done away with by the introduction of the course in accountancy prepared by Pace and Pace. This course being scientific meets the needs of the student whose preliminary education is limited and who has not formed habits of study. It is our good fortune to have in Saint Louis this year several men who are graduates of the Pace School in New York. They are lending valuable assistance in teaching the elementary course.

The work is being received with enthusiasm by the students and applications and inquiries are being received not only from Kansas City and other parts of the State, but from all parts of the southwest.

The thing I want to emphasize is that the demand for accountancy education is growing. Not only those who are bookkeepers and auditors are demanding it, but university students as well. The popular courses in universities today are those which aim to fit men for the business world.

Two obligations are laid upon us by the increasing demand for training along the lines of our profession. First, the importance of a general preliminary education should be urged. Second, members of the profession should be encouraged to prepare text and reference books for the use of students.

## The American Association's Year\*

BY JOSEPH E. STERRETT, C. P. A.

The past year has been characterized by no unusual events or extraordinary circumstances, but it has nevertheless been a year of steady, quiet growth. One evidence of this is found in the growth of our membership. A year ago the Association had a membership of 765, exclusive of honorary members, and excluding the duplication of membership arising through membership by certain individuals in more than one state society. Including the members elected yesterday, our membership on the same basis is now 869, or a growth during the year of 104 members, which is considerably in excess of that in any previous year in the history of the Association.

This increase of membership arises in part through applications from those to whom certificates have been issued during the year by the various state examining boards, but it is also partly the result of an earnest effort on the part of the state societies to increase their membership in their respective territories. If all those who hold certificates would recognize the advantages accruing from membership in the society in the state in which they live, our membership would be largely augmented, and I feel sure that such a condition would inure to the mutual benefit of all.

Even though our ranks included all holders of C. P. A. certificates, our numbers would still make it apparent that accountancy in this country is yet in the comparatively early stages of development. In England, with a population much less than that of the United States, we find the Institute of Chartered Accountants reporting a membership in April, 1910, of 4,130, while the Society of Accountants and Auditors has an enrollment of some twenty-three hundred. Even in the far-off island of New Zealand the Society of Accountants in June, 1910, was able to boast of a membership of 2,146. It is true that a portion of the latter membership consists of men who are not in practice, but it is probable from the information at hand that the members actually in practice form as large a proportion of the total membership in the New Zealand Society as they do in our own. These comparisons are made in no tone of discouragement; quite the reverse.

\* Annual address by President Joseph E. Sterrett before the American Association of Public Accountants in convention at New York City, October 18, 1910.



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The English organizations represent a growth covering a period much longer than that of our own history, and bear testimony that our profession has been a potent factor in the wonderful commercial development of the British Empire in recent years.

One more C. P. A. law has been enacted during the past year, and we are glad to welcome the Virginia Society to this our family gathering, and to commend the high standards that have been adopted by the Board of Examiners of that State. It is also no doubt known to you all that Massachusetts amended its registration act, and now has a full-fledged C. P. A. law, thus making a total of twenty-two states in which these laws are in force.

In many states the legislature meets biennially, and this has been a so-called "off" year. Renewed efforts will be made in several states during the coming winter to secure legislation, and I trust that Kentucky, Tennessee, Wisconsin, and Oregon will find their efforts to secure C. P. A. laws rewarded with success. A movement is now on foot in the State of Maine, which will I hope also result in the formation of a state society and a campaign for legislation. The enactment of a C. P. A. law in the State of Maine would complete the four corners of our country, similar laws already being in effect in Florida, California, and Washington.

The growth of C. P. A. laws and the comparative ease with which these laws can now be secured leads to the contemplation of the next logical step in legislation relating to the profession of accountancy. Legislation of this type, whether for accountancy or any other profession, is justifiable only on the ground that it promotes the public welfare—the benefit, if any, to the individual practitioner being incidental and purely subordinate. Moreover, such legislation always places a corresponding responsibility upon those who seek its privileges. This feature is found as a penalty clause in every one of our present C. P. A. laws, but as these laws are permissive merely and only in a limited degree restrictive, the public does not have that full protection which the business interests of this country must sooner or later demand. As matters now stand, anyone, whatever his lack of qualifications may be, can practice as a public accountant, and even those holding certificates cannot be held to as high a degree of responsibility as could be demanded under a law that would limit the practice of accountancy to persons duly accredited.

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In view of the present trend of public sentiment with reference to accountancy, the time is not far distant when our legislatures will give consideration to measures aiming at the restriction of the right to engage in public practice to persons who meet specified requirements, and we should, therefore, give careful thought to the form of restrictive C. P. A. legislation that will best conform to the needs of the business and investing public.

The report of the Board of Trustees and of the various committees and the several State Societies deal at length with the work that has been carried on throughout the year, but even at the risk of some repetition I desire to refer to a few points that are discussed more fully by others.

It must be a source of gratification to all to note the increased activity of the State Societies in holding meetings for the discussion of professional topics and for social intercourse. In perhaps no other way can the members of a State Society contribute more to their common benefit. No profession can amount to much until the members thereof become not only well acquainted, but imbued with a spirit of mutual trust and confidence. Furthermore, one of the obligations resting upon members who are older in point of service is that of stimulating by word and example the efforts of the younger practitioners towards a broader knowledge and higher ideals. The monthly meetings of State Societies provide an excellent opportunity for the exercise of such influences, and it is to be hoped that the present movement will be further extended. The growth of technical educational facilities has been going on apace, and perhaps the greatest need in this field to-day is for instructors of broad experience and real ability.

Another encouraging incident of the year is found in the invitation extended to the Executive Committee to appoint a delegation to attend a conference upon uniform legislation held under the auspices of the National Civic Federation in Washington in January last. This gathering was remarkable both in the number of organizations represented and the wide range of their activities. In addition to delegations from professional, commercial, and trade organizations official representatives of the several state governments were present, and the deliberations of this body covered a period of three days. Upon the program provision was made for two representatives of this Association. At the close of the conference a set of resolutions advocating uniformity in state

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laws was unanimously adopted, and among these resolutions was one commending the effort to secure certified accountant legislation and urging that the largest practicable measure of uniformity be maintained therein.

Another instance of the same type is found in the fact that the American Economic Association, the leading organization of economists in this country, will devote one session of its meeting this year to an accountancy topic, and members of this Association have been invited to take part in the discussion.

A candid survey of the situation leads, I think, to the inevitable conclusion that the business community needs the services of our profession and is ready to recognize this situation just to the extent the individual practitioners show by their industry, intelligence and unswerving integrity that they are worthy of confidence. The maintenance of the highest professional standards is the one thing that in the long run will do most to benefit the individual and the profession at large.

It is highly gratifying that the way now seems to be open for the Association to largely increase its activities. A year ago attention was called to the fact that the Association has never had any permanent headquarters and further that a real need exists for the services of an officer who can devote his entire time and attention to the work of the Association. At that time the lack of funds prohibited any definite steps being taken toward either the securing of headquarters or the employment of an officer such as I have just mentioned. The Association, however, indicated by its action at Denver and again through its Board of Trustees last April meeting that a lively sentiment existed in favor of these projects, and this sentiment has crystallized in recent months in the form of subscriptions to a guarantee fund supplementing the funds of the Association during the coming three years.

The response to this call has been so spontaneous that there is now an available fund of \$4,400, an amount at least one-third larger than even the most sanguine member of the Committee had dared to expect. With the revenue from dues supplemented by this guarantee fund the Association has a substantial income which, if wisely spent, ought to develop the best life of the Association and multiply its usefulness. The enthusiasm displayed in support of the guarantee fund may be taken as an assurance that the Association is very much in earnest, and that coming years will witness a development from within and a recognition

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from without that will far surpass anything we have hitherto accomplished.

Aside from the question of internal organization and legislation regulating the profession there are two lines of development towards which it seems to me the energies of the Association should be directed.

The losses incurred by banking institutions in this country traceable to lack of accurate credit information is simply appalling when viewed in the light of the lack of justification for such losses. To a large extent the bankers have themselves to blame for this condition. They have been so eager in competing for business that they have been willing to make loans on a basis of entirely inadequate knowledge. Only recently a large borrower frankly stated that the metropolitan banks could easily be fooled by almost any kind of a financial statement prepared for credit purposes provided it was written on a letterhead of a commercial house established for some length of time and bearing a good reputation. While such a statement sounds rash its truth is evidenced by the fact that this man had accomplished this very act and is now under a penitentiary sentence upon his own confession.

While the unhealthful competition among banking institutions will doubtless lead to the recurrence of similar losses, yet eventually bankers must learn that competition is commendable only up to a certain point, beyond which they must cooperate for self-protection. The truth of this is fully recognized by conservative bankers, and their influence is being exerted in favor of measures to protect the banks from unreasonable and unnecessary losses incurred through loans to borrowers. An indication of this spirit is found in the report of the Committee on Credit Blanks made to the Executive Council of the American Bankers' Association at its meeting in May last, at which time the committee presented forms suitable for use by banks in securing credit information from their borrowers. Among the queries found in these forms is this pertinent one, "Have the books been audited by a certified public accountant? If so, give the name of firm and date of audit." These forms are now, I understand, officially recognized blanks of the American Bankers' Association and should prove to be a first step toward requiring an accountant's certificate to accounts submitted in connection with applications of all loans of substantial amounts.

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The second line of development is in the field of corporate control. An effective form of control of corporations, which, while not hampering the legitimate activities of corporations and yet protecting the interests of the public, is one of the big problems for which we as a nation are now striving to find a solution. The corporate excesses that have characterized the past two or three decades have at last been brought home to the people and there is an evident determination to do something that will prevent the recurrences of practices that have disgraced our financial history. Many of these excesses have been incidental, no doubt, to the unprecedented accumulation of wealth in recent years which has strained our laws and social customs to the utmost. Both laws and business customs must, wherever necessary, be made to fit present conditions, notwithstanding that there are those in high authority who hold that in case of conflict business must be altered to meet the requirements of existing statutes. The sober common sense of the American people can, I believe, be relied upon to see that our laws are ultimately so framed as to enable the corporation and private individual alike to pursue their honest activities without fear or hindrances, and had the corporations, even ten years ago, generally given recognition to the honesty of purpose and the fairness of mind of the people as a whole much of the present agitation and discontent would have been avoided.

The one thing that has, perhaps, done most to foster and develop a spirit of dissatisfaction with corporate management generally had been the reluctance displayed by those in control of many large corporations to publish full and fair accounts of their financial position and the operations of their business. This lack of frankness has created a presumption adverse to business prosperity and the lesson is now being enforced that the doctrine of reasonable publicity of accounts must be accepted by those in charge of corporate interests.

The development of accountancy practice during recent years is of itself strong evidence of a growing belief that publicity of accounts supported by a certificate of audit is not only a reasonable requirement resting upon a corporation but that a frank recognition of this responsibility will go far to solve in an adequate and equitable manner the problem of corporate control.

During the past year the States of Massachusetts and Rhode

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Island gave recognition to this point of view when on April 14th and April 19th respectively they amended their laws relating to savings banks and provided that the trustees of these institutions shall appoint from their membership an auditing committee which shall at least once in each fiscal year cause a thorough audit to be made of the investments and the books of the corporation by a certified public accountant. The law further requires that the report of the accountant shall be made in duplicate, the original being transmitted to the board of trustees and made a part of the minutes of that body while the duplicate report must be sent by the auditing committee to the Bank Commissioner and filed by him as a public record. This legislation is in accord with the best business practice, and efforts made for the application of similar legal provisions to corporations generally would meet with the encouragement and support of a large and growing number of corporation officials and would merit the unqualified endorsement of the investing public.

It may be charged that in advocating measures of this sort we are seeking to benefit ourselves, but an enlightened self-interest that works a benefit to the community at large by strengthening confidence in conservative business institutions and conserving the interests of investors may be admitted without fear or shame.

Whether through Federal enactment or by state laws the present burning question of corporate control is to be solved I believe that in the interests of the public we should work together for reasonable publicity of properly accredited accounts of corporations. Our clients, who have voluntarily approved this policy, have the right to demand that we should take an active part in developing and shaping public opinion along right lines, and when the task is accomplished the public, that is now groping for something although it does not clearly know what, will applaud our efforts.

As members of this new profession we are accorded certain privileges while still greater ones await us, and in turn we must accept the accompanying responsibilities. These can first of all be discharged by individual preparation and the maintenance of the highest ideals of honor and integrity, and secondly by cooperation in exerting our influence in favor of the establishment of correct business customs, and the enactment of fair and reasonable legislation.

# Cost Accounting

BY JOHN R. WILDMAN, M.C.S., C.P.A.

## PART III

### CHAPTER VI

#### Materials and Supplies

Under this heading four things should be considered:

First: A place to keep them.

Second: The records employed by the stores department.

Third: The system used by the stores department.

Fourth: Reports issued by the stores department.

With regard to their location and custody it is of course necessary that they shall be under the immediate supervision of some one individual who will be responsible for their safety and preservation. Such an individual should be provided with the proper means of safeguarding the materials and supplies as it is absolutely unjust to attempt to hold a man responsible for stores without providing him with adequate physical means of protecting same.

The materials and supplies of like nature should be together. They should be arranged in an orderly manner to the end that they may be easily located and the arrangement may adapt itself to the taking of the physical inventory. Generally speaking, they should be arranged in sections or classes, alphabetically, or in the order that the accounts appear in the material and supplies ledger and within the various sections they should be arranged in racks, tiers, bins, closets or drawers, depending upon their nature.

With regard to records, broadly speaking, it is desired to know—

What comes in,  
What goes out,  
What remains.

The record in each instance should show the name of the materials and supplies, the class, units, price per unit and cost. The original record of what comes in is the invoice. The original record of what goes out is the requisition. The ledger should show what remains.

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The invoice is the basis for taking up the stock by the stores clerk and constitutes his authority for so doing. Invoices are usually entered in a book of record in order to prevent the receipt and issue of stores without any trace thereof being found. Such a book of original entry is also valuable in that a summary of the cost of the invoices obtained therefrom supplies a means of securing a general or balancing account in the materials and supplies ledger.

The requisition is the authority for the issue of materials and supplies. A knowledge of what it should recite is more essential than familiarity with some particular one of the various forms used. It should first of all receive a number; should recite the number of units required and give an accurate description of the materials and supplies to be issued; the lot, job or account number to be charged, and should bear the signature of some person in authority. It is not the practice to insert prices on requisitions until such time as the materials and supplies have been issued unless it is desired that specific materials at specific prices be issued. Ordinarily, they are issued in the order received, with accompanying prices. A summary of the requisitions in a book of record is desirable especially for the purpose of supplying totals for the general or balancing account in the materials and supplies ledger.

The ledger should contain an account with each class of materials and supplies and should be so arranged as to show the details of receipts and issues, setting forth in the case of receipts; the

Date  
Number of invoice or number of summary  
Units  
Price per unit  
Amount

and with regard to issues; the

Date  
Number of requisition or number of summary  
Units  
Price per unit  
Amount.



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While the general or balancing account previously referred to is not absolutely necessary since the materials and supplies ledger is controlled by the materials and supplies account in the general ledger, such an account facilitates the work of the stores department in that it is relieved of the necessity of constantly checking with the controlling account in order to ascertain if the ledger is in balance. The form of the ledger to be employed is largely a matter of choice. It matters little whether a bound book, loose leaf, or card system is used.

The operation of the system obtaining in the stores department requires that as to invoices they shall be numbered consecutively as received and the date of receipt noted thereon. Goods and prices should be checked and extensions verified, if same has not already been done. The invoice should be entered on the invoice record for summary purposes and the details of the invoice posted to the debit of the appropriate ledger accounts. Requisitions should have the number of units actually issued noted thereon, with prices of the units issued, should be extended and entered on the summary and the details posted to the credit of the appropriate ledger accounts.

A trial balance of the ledger should be taken monthly or oftener. The continuous posting of details of invoices and requisitions and the continuous balancing of the units of stock as well as the money values, proves valuable as a perpetual or running inventory. The balance of a given kind of stock as shown by the ledger may be verified by checking with the physical inventory, at regular periods or at such times as the stock is at a minimum.

One report only is necessary from the stores department so far as the cost clerk is concerned and this should take the form of a summary showing particularly the cost of the materials and supplies issued against the numbers of the various jobs in process. The report may be made monthly, bi-weekly or as much oftener as judgment indicates or the cost department desires. A specimen report is given on page 189.

In connection with the general discussion of materials and supplies a few words should be said regarding inward freight and cartage and labor in the stores department. While they will be discussed here from a strictly technical standpoint and such items added to direct cost, experience teaches that while perhaps not so accurate it is more practicable to include them in the overhead.

**EMPIRE HAT MANUFACTURING COMPANY**

**REPORT OF MATERIALS AND SUPPLIES ISSUED—FOR THE WEEK ENDED DECEMBER 10, 1908**

CLASSIFICATION.	Total.	DISTRIBUTION.					
		Manufac- turing Overhead.	Lot No. 278.	Lot No. 279.	Lot No. 280.	Lot No. 281.	Lot No. 282.
Fur—Double Ring	\$2,018 61			\$2,018 61			
Fur—Blue Sides	1,317 00					\$1,317 00	
Fur—B. C. B. Unpulled	1,477 01		807 11	669 90			
Fur—Coney Sides, French	617 17			617 17			
Fur—Colored Seal	2,566 47		310 02	701 40		1,555 05	
Fur—Coney Tails, English	1,271 08		160 69				
Shellac	339 12		333 13	506 55		431 40	
Dye Mixture	605 14		83 76	137 88		117 48	
Alcohol	387 00		153 56	246 20		205 38	
Sand Paper	2,801 96		94 50	157 50		135 00	
Ribbon—Band	2,549 72		528 16	1,533 28		740 52	
Ribbon—Binding	69 59		506 30	1,333 52		709 90	
Ribbon—Bow	636 12		12 22	40 23		17 14	
Wires	2,330 84		157 14	258 66		220 32	
Leathers	674 68		579 02	946 02		805 80	
Labels	7 90		166 87	274 23		233 58	
Needles	18 79						
Thread	2,356 00		4 70	7 38		6 71	
Boxes and Cases	\$22,204 89	\$7 90	\$4,479 18	\$10,406 53	\$7,311 28	\$816 00	

Cost Clerk posts all except Manufacturing Overhead.

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Inward freight may be added to the price per unit on a percentage basis ascertained by finding the ratio which the freight on the invoices bears to the cost thereof. Cartage unless it can be applied to specific invoices is more difficult of distribution. It is possible, however, to ascertain the ratio of cartage to the total cost of goods and subsequently distribute same over the invoices. A similar ratio of the cartage to the cost of the individual invoices may be ascertained and the cartage then applied to the units. This method is largely based on theory and the work involved frequently precludes its adoption in practice.

Labor in the stores department is of two kinds:

Clerical.

Manual.

Manual labor covers:

(a) Receiving and putting goods in stock.

(b) Taking goods out of stock and preparing them for issue.

It will be seen that from a theoretical standpoint the manual labor involved may be divided between the two processes just mentioned, and that it, along with clerical labor, may be distributed over the invoices. In such cases, however, the invoices would have to be held until the end of the week and the payroll ascertained, unless the labor were to be distributed daily. An arbitrary percentage is sometimes added to cover this and other factors but the objection to this plan is, that it involves an adjustment at the end of the week or month in order to bring the books into agreement with the actual figures which the payroll shows. The practice now commonly in use, is to throw this item, like inward freight and cartage, into the overhead for general distribution.

## CHAPTER VII

### Labor

The subject of labor can best be discussed by looking at it from the standpoint of the foreman or head of a department and ascertaining the nature and extent of the information he requires.

Labor may be defined as services performed for which compensation is paid. The compensation may take the form either

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of wages or salary, and labor may be divided into two kinds, clerical and manual. Clerical, or administrative labor, is that performed with the head. Manual labor is that performed with the hands. Manual labor, in turn, so far as its application in manufacturing is concerned, may be divided into direct and indirect labor. The direct labor is frequently referred to as productive labor, and the indirect as non-productive labor. A choice of terms in this matter is of slight importance, except that the terms direct and indirect appear to be slightly more correct from a descriptive standpoint. It is usually easier to determine whether or not an operative is directly or indirectly engaged upon the product than whether or not he is producing anything. The direct labor may be applied either to the work performed at the hands of the operatives or through the medium of machines. Such labor is always expended in connection with, but not specifically applied upon, the product. It is reasonable to suppose, looking at the subject from the standpoint of the foreman, that with regard to work of the individual the information required would be something of the following nature:

1. What the operative does; the nature of the work in which he is engaged, and the particular job upon which he is working;
2. The unit of compensation, whether it be on a time or a piece or job basis; if on the time basis, whether he is working by the hour, day, week or month; if on a piece basis, the number of units produced; if on a job basis, the amount of time employed on a job;
3. The rate of compensation;
4. The amount earned.

What applies to the individual applies to departments, and in order to obtain the same information with regard to the departments that has been obtained with regard to individuals it is only necessary to multiply the information per individual by the number of individuals in the department.

What applies to the departments applies to the plant as a whole, and in order to obtain this information with regard to the plant as a whole it is only necessary to multiply the departmental information by the number of departments. It is apparent from the above that it would be advisable to have a summary of the entire plant, showing

1. The amount earned by each individual;

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2. The amount of work of the operatives, taken collectively, which applies to each lot or job or class of work in process.

3. The total amount earned by all operatives.

As to the reasons for recording these three points of information, it may be said that with regard to the first it is necessary to ascertain the amount of the payroll liability at the end of each period, in order that the accounting department, or more properly speaking, the paymaster, may be informed as to the amount necessary to meet the payroll; second, the liability to each individual, or the amount which he is entitled to receive at the hands of the paymaster on pay day; third, for the purpose of distribution, in order that the amount applicable to each job or lot may be ascertained.

Having determined the information necessary, the matter of records may now be considered. These will, of course, comprise three kinds; those pertaining to the individual; those pertaining to the department; those pertaining to the plant as a whole. With regard to those of the department and plant as a whole, it is unnecessary to say scarcely anything more than that they are either partial or complete summaries of the individual's records. The record of the individual, as above indicated, should show—

1. His name or number;
2. The nature of the work upon which he is engaged;
3. The number of units produced, or amount of work performed;
4. The rate of compensation;
5. The amount earned.

The origin of the individual record will depend largely upon—

1. The nature of the work;
2. The intelligence of the operative;
3. The basis of compensation.

The members of a railroad construction gang would not, as a rule, keep their own records. Laborers in a foundry, on account of the low order of intelligence sometimes obtaining, would probably not keep their own records, whereas operatives on clothing, being of a higher grade and employed upon piece work, might, in some cases, record their own work.

The form to be employed in keeping such records would depend upon the type of production, whether single or multiple

### Cost Accounting

unit, or miscellaneous, and the basis of compensation, whether time or piece.

If the time basis were in use, a time book kept by the foreman or some delegated employe might be used for recording day labor.

If the hour were the unit of time, it is more probable that the time would be recorded upon a card, which might be kept by the operative or by some employe designated for this work.

In cases where the piece basis is employed for the recording of work, labor tickets are commonly used. These are either given out to employes upon the completion of work, or they may be in the form of coupons attached to an order, which are detached by the employe when the job is completed.

Labor tickets may also be arranged so that they may be punched by the foreman or some designated employe when occasion requires.

In the first of the two instances above cited, they are retained by the operatives until the end of the week or wage period, when they are turned in as vouchers and made the basis upon which the payroll is constructed. The labor attendant upon the counting of coupons is sometimes overcome by issuing them in strips or having them pasted in books something on the same order as those issued by several well-known concerns who give trading stamps with purchases. Rough outlines, indicating in a general way the scheme of time books, cards, and labor tickets follow.

#### TIME BOOK—SINGLE UNIT PRODUCTION AND DAY LABOR

Name	M.	T.	W.	T.	F.	S.	Total	Rate	Amount

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**TIME CARD—MULTIPLE UNIT  
AND HOUR BASIS**

TIME CLOCK \_\_\_\_\_ NAME OR NO. \_\_\_\_\_ NATURE OF WORK \_\_\_\_\_

Job No.	In	Out	No. Hours	Rate	Amount

**LABOR TICKET**

Name or No. \_\_\_\_\_

Job No.										Total	Rate	Amount

*(To be continued)*

## Balance Sheet Audit of Stock Brokers' Accounts

BY HARRY MASON SMITH, C.P.A.

When one considers the vast sums handled in the daily transactions of a stock broker's office without any really efficient internal check, as well as the fact that such alarming defalcations are made public from time to time, it would appear that as a safeguard, most brokers should submit their accounts to a Certified Public Accountant for examination and review. Yet, as a matter of fact, comparatively few brokers, despite the obvious weakness of their accounting systems, resort to this independent supervision of their accounts.

However, as accountants, we are not particularly interested in the responsibility for such conditions, but rather are we concerned in the manner of conducting such an examination when our assistance is invited. The subject of auditing such accounts is not at all a difficult one, although it may be explained that, as in most businesses, there are several classes of audits. One is the completed audit, embracing a periodical review and verification of all the accounts. Another is both detailed and continuous and consists of the monthly examination of some portion of the accounts with the view of verifying all during a certain period; this particular form has perhaps the best moral effect on the brokers' office force, as it is not known by them at any time, just what will be examined next. Another form is the preparation of an Equity Balance Sheet on a liquidating basis; this has many advantages to the broker, among which may be included the benefit of seeing at a glance the exact standing of each of his customer's accounts.

We, however, at this time, are to consider a more limited form of audit embracing the independent verification of all the assets and liabilities; it is one frequently resorted to by brokers and is of decided value to them in many ways.

The examination of a stock broker's accounts may be said to be similar in many respects to that of a banking institution. The nature of the accounts being such that many of the items which require verification change materially with the resumption of each day's business it is therefore absolutely necessary to obtain on



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the first day of the audit the full details of all such items, verification of which must subsequently be secured.

An outline of the examination should be prepared before the commencement of the work, so that the desired results may be obtained with a minimum of effort and without hindering the usual course of the broker's routine business. The order in which the matters that claim immediate attention should be taken up, may be determined by the auditor in charge; but it should be such that the efforts of his staff will be directed to the items already mentioned. It is perhaps unnecessary to state that the work should be commenced at the close of a day's business, preferably the last day of the month and obviously, without previous notice to the client's office force.

An auditor undertaking an examination of this nature would do well to use every precaution and to be most circumspect, as there are many opportunities for fraud, particularly during an active market, when under the rush of business such might be carried on indefinitely, unless the accounts are made subject to a systematic, searching and intelligent review by a competent auditor. Quite apart from fraud is the danger of clerical errors being made in the calculations of commissions or interest, which might result in extensive losses to the broker if the transactions were not carefully verified.

An auditor may frequently be called upon to examine a business of which he has no particular knowledge; and yet, guided by general principles and by experience, his examination may prove entirely satisfactory and his report of value to those concerned. It appears to the writer, however, that a certain technical knowledge of a stock broker's business is absolutely necessary in order to make a comprehensive audit of it. An auditor unfamiliar with stock broker's accounts and Wall Street methods and terms would no doubt be greatly confused were he to attempt such an audit without any experience in such accounts. The methods of accounting differ materially from those employed in commercial houses; certain principles of accounting appear to be reversed and many of the captions of the accounts are strange and misleading.

However, it is not the purpose of this article to discuss the qualifications of auditors, so we shall now proceed with the audit itself. Let it be clearly understood at this point, that an audit

## *Balance Sheet Audit of Stock Brokers' Accounts*

of only the items comprising the Balance Sheet is to be considered; an audit of the transactions which affect the Profit and Loss Account may be detailed in a subsequent paper.

As already stated, the scope of the examination should be outlined before the actual commencement of the audit and then there is less chance of overlooking some important point which may subsequently be difficult to prove. Under the following headings, therefore, we shall consider the items that require prompt attention the first day of the examination.

1. Cash on hand and in bank.
2. Revenue Stamps on hand.
3. Securities in the box.
4. Confirmation by correspondence of Money Loans, Stock Loans, Stock Failures and Stocks in Transfer.
5. Customers' statements.

1. *Cash on hand and in Bank*: Usually, but a small amount of cash is carried in the office and its verification is a simple matter. A complete record should be preserved of the details of the cash settlement and these details should subsequently be examined and verified. Anything other than actual cash should be referred to a member of the firm and should be accepted only with his approval.

All pass books should be obtained by the auditor after the close of the day's business and should be sent by one of his staff to the banks for settlement. It is important that the broker's force be notified that they are not to secure the pass books from the banks. One of the firm should be requested to address a letter to each bank directing that the pass books with cancelled cheques be delivered only to the representative of their auditors. This simple precaution should not be neglected in any audit that concerns a cash settlement; it is the best assurance that an auditor may have, to be absolutely certain that he obtains his client's genuine pass books. Instances have been known where two pass books for one account have been in existence and the fraudulent one has been handed to the auditor by employes who were desirous of concealing their fraud.

2. *Revenue Stamps*: This item does not present any difficulty, as it is customary to keep a ledger account known as "Revenue Stamps" or "Tax Stamps"; this is debited with the cost of all stamps purchased and is credited with such stamps as are charged

to customers on sales of stocks at the rate of two cents per one hundred dollars par value. The ledger account should thus control the stamps and indicate the value of those on hand. After counting the actual stamps, it should only be necessary to make reference to the ledger to ascertain that the value of the stamps on hand is correct, although allowances may have to be made for stamps given to the delivery clerk for certain of the following day's transactions; this, however, may readily be verified by examination of the blotter.

3. *Securities in the box*: The verification of the securities in the box by actual inspection and count is one of the important points in an audit of this nature. As a matter of fact, the term "box" may include half a dozen good-sized boxes and any one who frequents the vicinity of Wall Street, either before or after the hours of business on the Exchange, may see such boxes being carried through the streets to or from the safe deposit vaults, more or less carefully guarded.

The "box" may be understood to include bonds, stocks or other valuable papers kept therein. As the contents are ever changing, it is absolutely necessary to obtain the exact amount of all such securities at the close of business the first day of the audit.

In many houses, it is the custom of one of the firm at certain periods, usually monthly, to compare the securities in the box with the list furnished by the cashier and to accept that as conclusive. From the standpoint of an auditor, however, but little good is accomplished by such a proceeding, inasmuch as the box list furnished will be certain to agree with the contents of the box; if a cashier be dishonest, he will take good care that the two will be in agreement.

Rather than permit the auditor to make a physical examination of the contents of the box, some firms prefer to furnish a certified box list. Others, however, allow access to the box and in that event, the auditor in charge should carefully examine the securities, noting for instance, that such coupons as are payable have been cut and also that all stock certificates have been properly endorsed. A schedule, alphabetically arranged for future reference, should be prepared of the entire contents before the box is released. This schedule will be necessary when balancing stocks, as will be explained later.

## *Balance Sheet Audit of Stock Brokers' Accounts*

It will sometimes be found that there are certain securities in the box that belong to customers and do not represent collateral on open accounts; these should be controlled by the stock record as are all other securities, but should be designated by a distinguishing mark to indicate the customers' complete ownership. A record, of course, should be made of such securities and confirmations should subsequently be mailed direct to the customers requesting them to confirm their correctness. The custom varies in different houses as to these items and the auditor, of course, must be guided accordingly.

4. *Confirmation of Loans, etc.*: Under this heading, we shall consider the following items:

- Money Borrowed
- Money Loaned
- Securities Borrowed
- Securities Loaned
- Securities Failed to Receive
- Securities Failed to Deliver
- Securities in Transfer

Details of all the above may be found in subsidiary records, the totals of which, of course, must be verified by the general ledger balances before the confirmations are mailed. As a rule, any number of assistants may be employed in preparing these confirmations, which should be prepared in duplicate; the originals should be mailed and the duplicates preserved for comparison with the stock record. Care must be exercised in the preparation of all the above items and they should be carefully compared before mailing. It is perhaps unnecessary to state that a return envelope should be enclosed so that the reply may be returned direct to the auditor's office.

Most auditors having a Wall Street clientele have their own printed forms which they use when confirming all the above items. These forms are so designed that they reduce the labor of preparing the confirmations to a minimum. Two forms are sufficient: one for the first two items mentioned; the other covering the remainder. In order that the party to whom the confirmation is sent may readily identify the particular transaction, it will be necessary to give complete information. For instance in asking confirmation of securities in transfer, in addition to giving the number of shares and the name of the security to the transfer

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agent, the name of the person appearing on the surrendered certificate should also be shown.

5. *Customers' Statements:* The mailing by the auditor of the customers' statements, after he has confirmed the correctness not only of the money balances, but also of the securities, is one of the very important points of an audit of this nature. As in the case of the other confirmations, the auditor's return envelope should be enclosed with each statement.

Most houses require that certain of the customers' statements be mailed the last night of the month. Should the stock record be posted to date, it is only necessary to compare the statements with the stock record as to securities, checking the items, of course, on the stock record, and then to note on a schedule of "Statements sent in advance" the name and money balance of each statement. If, however, the stock record is not ready, it will be necessary to note the details of the securities on the schedule. It is obvious that once the stock record is in the possession of the auditor, it should not be released by him until the open items have been checked and stocks balanced.

As a rule, the bulk of the statements are not turned over to the auditor until about the third day of the audit and as we are only considering the work of the first night at this time, we shall not discuss this point fully.

*Miscellaneous:* We have now considered the important matters that must be attended to the first night. Of course as the nature of the business of different houses vary, so will the items that require attention vary. The auditor, however, should have ascertained before the examination just what would require his attention; this may be done by scrutiny of the items entering into a recent trial balance and by questioning the broker as to the nature of the business.

It will usually be found that most houses trade on the Cotton and Produce Exchanges. In that event, before his first night's task may be regarded as completed, the auditor will do well to examine the warehouse receipts covering "Spots" and the certificates of deposits representing margins on open trades held by banks. It will also be necessary to balance and confirm the customers' as well as "Street" options on open trades.

This, however, is a subject we shall not discuss in detail at this time as the writer has in mind to consider it at some future

### *Balance Sheet Audit of Stock Brokers' Accounts*

time in a separate article, should there be any interest in an audit of such a nature.

The points already discussed will complete the work of the first day and it will usually be found to have taken a considerable portion of the night. As an examination of this kind is somewhat of a nervous strain, it is not advisable to attempt to verify any items other than those that actually require prompt attention.

Upon resuming the examination the next day, the auditor should obtain, if possible, the trial balance and should prepare a copy of it. Having secured this, it should be compared as soon as possible with the ledgers as to its correctness. The totals of the items verified the day previous should be initialled on the auditor's copy of the trial balance.

*Customers' Statements:* The most urgent matter now will be the sending of the customers' statements. As soon as these are secured, they should be compared with the trial balance as to the money balances and with the stock record as to the securities. It is obvious that any discrepancies discovered in comparing the statements with the stock record should be adjusted before the statements are mailed. The fact that a statement has been secured may be indicated on the trial balance by marking "S" opposite the amount of those obtained.

The statements once they are verified should not be allowed out of the auditor's possession, but should be mailed by him direct to the customers. A request to the customer to confirm his account should accompany each statement. These requests should be prepared by mimeograph on the brokers' letter heads and should be worded so that they will appear to have been sent by the broker, but will request that the reply be sent in the enclosed envelope to the auditor's office. There are several forms of these requests; some are very complete and indicate the money balance due to or by the customer, as well as the details of all the securities long or short; this, however, places quite a burden on the auditor's staff to prepare. The form preferred by the writer is simply a letter requesting confirmation of the statement, as it requires only the writing the name of the customer at the head, sufficient space being left at the bottom of the form for the customer to sign and return.

The trial balance should be examined as soon as possible and

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such accounts, other than nominal accounts, as do not bear the evidence of independent verification should be scheduled and gone over in detail with a member of the firm. The auditor should not accept responsibility, without independent verification, for the correctness of any real or personal account; all such should be passed only with the approval of a responsible person, reference being made in the text of the report to such accounts as are accepted in this manner and a schedule of the same should also be attached to the report.

*Balancing Stocks:* Having disposed of the statements, the auditor should now proceed to "balance stocks." This is an expression generally used in a discussion of a stock broker's accounts, but not often explained. There are, no doubt, several methods of balancing stocks, but in the writer's opinion, the simplest and most effective method is to compare all the data already secured, direct with the stock record, balancing on par values or number of shares and noting that the footings of the long and short sides are in agreement.

The position of the securities appearing on the stock record may be set up as follows:

<i>Long Side:</i>	<i>Short Side:</i>
Customers	Customers
Securities Borrowed	Securities Loaned
Securities Failed to Deliver	Securities at Banks as collateral
	Securities in Box
	Securities Failed to Receive
	Securities in Transfer

No attempt should be made to verify the stock record until all the customers' statements have been sent and then the stock record should not be released until the work of balancing has been completed.

The duplicates of all the confirmations sent out the first day, together with the box list, will furnish all the necessary data to complete the verification of the stock record, and it is a simple matter working from the stock record to compare the details and to note any discrepancies; these, of course, must be investigated promptly and adjusted.

It is advisable to send out about the end of the third day, a second request for the confirmation of all items, other than customers' statements, not confirmed at that time.

### *Balance Sheet Audit of Stock Brokers' Accounts*

In the examination of the stock record, it will usually be found that there are securities of customers on hand paid for outright or held for safe keeping, which may not appear on the ledgers; confirmations, of course, should be sent for all such securities.

*Testing Sufficiency of Customers' Margins:* There are so many opportunities for fraud and manipulation of the accounts of a broker that it is a difficult matter to state that one thing is more important than another. It may be possible to find fraud, if such has been committed, in every one of the subjects considered so far.

The mere balancing of securities, including the independent confirmation of every item entering into the accounts, may be useless, if no effort be made to ascertain that the customers, or at least certain of them, have sufficient margin to protect the broker. As a matter of fact, if an equity balance sheet be prepared on a liquidating basis, a broker, if his accounts are properly margined, should not have any Accounts Receivable.

It is an easy matter to ascertain the broker's rate of margin for carrying certain securities and then to extend the values of certain or all of the customers securities at the closing prices of the day of the audit. This will result in disclosing such accounts as are weakly margined; these, of course, must be referred to the broker for such action as he may consider necessary.

To illustrate the point of fraud in unexpected places in a broker's accounts, the writer recalls an instance of a margin clerk (who by the way is supposed to be independent of the cashier, as well as the bookkeeping department and therefore safe) who had reopened an old customers' account and used it for his individual trades, without the broker's knowledge. At first the account was well margined, but later the market turned and the account showed a loss. Despite this fact, the employee, by reason of his position, managed to draw considerable cash, by having the cashier draw several cheques apparently on the customer's order and then forging the endorsements and having the cheques cashed. The fraud was made possible by reason of the fact that the margin department advised that the account was amply margined; the connection of the clerk with the account not being suspected.

Fortunately, during the course of an audit the fraud was discovered, as this account was one selected in which to test the sufficiency of the margins. An irregularity of this nature



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had never been considered possible by the client, as the margin department was located apart from all bookkeeping, as well as from the actual handling of the securities and was really depended upon to promptly report any account that fell below the required margin. What house could protect itself against fraud of this nature unless the system of internal check were almost ideal or unless the accounts were comprehensively audited at frequent intervals.

*Bank Accounts:* As previously stated, letters to obtain the pass books from the banks should have been obtained about the beginning of the examination. The cheques returned by the banks should be examined as to form and endorsements and compared with the stubs; the deposits as per the pass books should also be compared with the stubs, care being taken that the dates are in agreement. Certain of the details should be compared with the blotters so as to be certain that the receipts and payments as shown by the books are in agreement with the actual transactions passed through the bank accounts.

It is also advisable to ascertain that all cheques drawn to "Cash" or "Bearer" are accounted for properly. Sometimes such cheques are drawn apparently for cash for certain customers; they are charged to the customer's account and yet for obvious reasons, do not appear on the statement sent to the customer. This point has frequently been used to manipulate such accounts.

*Conclusion:* The items considered will be found to embrace the assets and liabilities of the average broker, but as previously stated, the items will vary as the nature of the business varies. The auditor of course must be guided by conditions as he finds them.

The matter of submitting a report is most important; the scope of the examination may be given with more or less detail, attention being directed to loose or dangerous methods, comments and suggestions being offered for a correction of the same.

It is not often that a balance sheet or statement of the profit and loss account is required. As a rule the broker simply desires to know that his accounts are correct. He is not interested in obtaining a certified balance sheet for submission to a bank for credit; while the banks furnish most of the money that enables the broker to do business, they obtain, as is not usually the case in their dealings with commercial businesses, collateral which they can more or less readily convert into cash.

# Organized Labor's Attitude Toward Machinery

BY PAUL KLAPPER, PH.D.

PART V

CHAPTER IV (*continued*)

## Boot and Shoe Workers

The shoemaker of the olden days was considered a leader among skilled artisans. "A Cobbler's wit" is an old expression that we still use to-day, despite the fact that it is utterly inapplicable. Shakespeare, in picturing a crowd, often puts clever questions and repartee into the mouth of the shoemaker. The cobbler, with his bench and tools, measuring his customer's foot, planning and making the shoe from beginning to completion, is gone. Shoemaking to-day is one of the classic illustrations of an industry revolutionized through the development of machinery and the application of mechanical power.

In 1800, there were a large number of shoe shops that turned out "ready-made" shoes. Some shops specialized in uppers, some in soles, others in heels, etc., but all was done by hand. In 1810, J. Brunel invented a machine which lasted and nailed, but it was clumsy, and showed little prospect of any degree of success. It was used on poorer shoes, such as had to be turned out in a hurry to meet the demands of the army. In 1837, a number of mechanical appliances for nailing and cutting were introduced, but these were more in the nature of improved tools than machines. They aided the worker by reducing the drudgery, but they could never displace skill, or be responsible for the introduction of the factory system in the boot and shoe industry. The decade and a half from 1845 to 1860 brought a series of machines, which affected almost every part and process of the industry and sounded the death knell of the domestic system in the making of shoes. These innovations began with the ordinary nail pegging machines and ended with the McKay Sewing Machine, which sewed uppers, soles and insoles all in one operation, and were driven by steam. The next ten years (1860-1870) saw an increase in the number of machines, additions and modifications of existing ones, a gradual extension of the factory system and the attending craft conditions which we studied in our second chapter.

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The part of the life of organized labor in this industry which has a bearing on the machine problem shows three more or less definite stages:

1. The period of Crispinism, from 1867 to about 1874, during which about 51% of the members of the craft enrolled under the banner of the Knights of St. Crispin.
2. The Laster's Organization, 1869 to the present, which controlled the lasting process of the shoe industry.
3. The death of the Knights of St. Crispin was followed by a generation of disorganization, the rise and fall of dozens of unions, until in 1895, the modern "Boot and Shoe Workers' Union" was founded and affiliated with the Knights of Labor. We must follow the shoe workers and their organization through these three stages, to ascertain their attitude toward machinery.

### THE KNIGHTS OF ST. CRISPIN

The labor and craft conditions which led to the formation of an organization of the workers in 1867, were very abnormal. The unnatural and successive demands for shoes, which lasted during the four years of the Civil War suddenly stopped, and the labor market which had been suffering from a shortage of supply, found itself with a surplus on hand. The revolutionizing of the skilled handicraft, which immediately preceded the war, was a good opportunity to introduce the hordes of the unskilled workers that were now flooding the country. A reduction in wages and increased irregularity of employment were the complaints throughout the country among the members of this craft. The most natural result of such circumstances, is organization. All shoemakers were fellow-sufferers and had a common grievance. As soon as the suggestion of a union came from Milwaukee in 1867, the workers seized upon the idea with avidity. The growth of this organization was unparalleled in the labor history of this country. In four years, 60,000 laborers were enrolled on the active members' list. "The Knights of St. Crispin" stood as a protest against the inequity and the severity which attended the mechanization of the industry. As a labor union it grew because it was planted in soil industrially fertile; its immediate success was a foregone conclusion.

Since the conditions which made their organization necessary were brought about largely by the introduction of machinery, it

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is natural to find a union of laborers conceived in a spirit of bitterness and vindictiveness and desiring to restore former craft life, striking against what they believed to be their common enemy,—the machine. Their constitution and organization clearly reflect their hostility toward machinery, their endeavor to keep untrained workers out of the industry, and to establish a monopoly of labor based on skill and experience. A synopsis of their governing document shows this clearly:—

- OBJECTS.—(1) To procure mutual benefits and protection.  
(2) To safeguard our members from injurious competition.  
(3) To secure unity of action and its resulting benefits.

ELIGIBILITY OF MEMBERS.—Any male person, 18 years of age and upwards shall be eligible to membership, if he has worked an aggregate of two years at boot and shoe making, and is at present employed at the trade.

(We see clearly the attempt to keep out children, and unskilled youths, women and newly arrived immigrants.)

NEW HELP.—No member of the Crispin order was allowed to teach or aid in teaching any part of his trade, unless the union gave him permission by a three-fourths vote of those present.

(There were two exceptions to this: (1) A father was permitted to teach his son; and (2) An active Crispin could learn another branch at pleasure. We see here an attempt to keep up a closed corporation, control the members who enter the craft, and thus enjoy the much sought for monopoly.)

GRIEVANCES.—Before ordering a strike, a local union must bring its grievances to the Grand Union. The cases which will receive attention are:

- (1) When men are discharged for refusing to teach new help.
- (2) When men are discharged for belonging to the Crispin Organization.
- (3) When men are discharged for being conspicuous in forming new unions.

The keynote of this whole organization was an endeavor to maintain a labor monopoly, and guard most zealously the skill of the craft.

“The Knights of St. Crispin” was more like a fraternal order than a union. It had a Grand Lodge (the National Union) and a series of local lodges (local unions). It was organized on a

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series of graded "degrees," with a secret ritual and a grievance fund to meet its emergencies. It had no voice in matters of wages, hours or conditions of employment. These had to be settled by each local lodge. We see then, that it was an exceedingly weak organization. It had no central authority on the most vital points. It lacked articulation, and made for diversity rather than uniformity of craft conditions; it lacked wofully in co-operation and united action, and it promoted provincialism and localism. Each local lodge or union ruled in matters of trade policy. The central body had no plan. If it had, it had no authority to enforce it. Then, too, the union grew too fast. Its members were not saturated with union spirit and union loyalty. The central organization had to depend on voluntary contributions of money for the greater part of its work. In 1869, while almost at the zenith of its power, the Grand Lodge owed \$90,000 to its locals. We see then, that in spite of the fact that the immediate success of the "Knights of St. Crispin" was assured, its ultimate failure was a foregone conclusion. It was not their opposition to machinery which caused their downfall but rather the weakness of their organization and their failure to organize a labor union based on labor conditions and labor policies. McNeil in his "The Crispins" comes to the same conclusion:—  
"Here was a powerful combination of intelligent men, practising the virtues of arbitration and co-operation, electing its representatives by scores to the legislature, *yet without cohesive power enough to hold together to accomplish the purpose for which it was formed.*" (P. 170.)

In 1872, the end of the Crispins was clearly in sight. The Crispin Board of Arbitration had lost everything, the treasury of the Massachusetts Grand Lodge was depleted, and 2,000 of its members were without employment, and with no visible means of support. Manufacturers advertised fairly good prices to those who would sign affidavits renouncing all faith in the Knights of St. Crispin. Entire shop forces were confronted with the proposition—"Sign these renunciations or leave our employ, for the hungry and the unemployed without are waiting for your places." With the hardships of penury and want staring them in the face, they decided that it was not worth martyring themselves for the principles of a labor organization which was breathing its last, and had failed to accomplish what they had hoped; viz., "to save

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the craft from the machine." They therefore signed agreements like the following,—death warrants for the organization of the Knights of St. Crispin:—

" This is to certify that I, . . . . ., have belonged to the order of the Knights of St. Crispin, and have become satisfied that the said order is of no practical benefit to its members, but a damage to them and to their employers; and, also, that I have withdrawn from said order, and will not in any way directly or indirectly aid in its support.

Now came a period of cut-throat competition, underbidding of workman by workman; a time when the employers did not hesitate to avail themselves of the situation by cutting wages lower and lower until the once skilled operator was reduced to the level of an unskilled laborer. To cap the climax, the panic of '73 broke upon them. Capital was scarce, money was tight, the demand for commodities had decreased considerably and wages had sunk to \$8 and \$9 per week during the rush season.

The Labor Report of Mass. for 1877, speaking of the year of 1873 says:—"Manufacturers themselves admitted that the prices of labor were too low and confessed that they could not understand how men with families to support managed to do so, even with constant work. Some of them even admitted that Crispin organizations, with all their faults, had good features, and that some association of workmen was necessary, not only for their own protection, but for certain advantages of the employers."

#### THEIR ATTITUDE TOWARD MACHINERY

That the Knight of St. Crispin did not favor machinery, we must admit; that it was conceived in the hope of counteracting the trade conditions that the machines brought, their constitution showed us; hence it is not surprising to find the Labor Report of Massachusetts for 1871 giving testimony of employers stating that their men "did not do the right thing by the machines." "The Hide and Leather Interest," a manufacturer's journal, in its issue of May 1869 says "those who say that the Crispins do not oppose machinery are saying what they know to be false." Accusations like these are most natural after what we have seen. Let us turn to the answer made by the workmen.

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President McLaughlin of the Grand Lodge of Knights of St. Crispin said (1876 convention), "In the cutting up of the trade and the introduction of new and useful machinery, our employers have stolen nearly every advantage arising from them, so that in the place of their being a great blessing to the toiling men, women and children of the land, they (the employers) have used them as engines of oppression, in keeping the people in complete subjection, so that by their degradation they might be able to promote their own greatness. But they must remember there is a day of retribution and that the organization of trades denotes that day."

Mr. Leiskohere, of the University of Wisconsin, made a detailed study of strikes and boycotts in the Boot and Shoe Industry. He says that the number of strikes declared because the Knights refused to teach "green hands," counterbalances all others of the remaining strikes; nearly all the rest were called in the attempts to resist the curtailment of wages or the increase of hours. The workmen's stand can be summed up perhaps best in the words of one of their number,—“ We do not stand in opposition to machinery and labor saving devices, but we want them, and at wages not reduced, because the machine increases the profits of the employer, increases the output and lessens the length of the working season. We refuse to teach 'green hands,' as their presence is a sure guarantee that attempts to reduce wages will be successful.”

The Crispins took the same position as the moulders did later; they demanded a share of the advantages which machinery was bestowing upon society, and a voice in matters relating to its control. That they did not object to the machines *per se*, can be seen from the dozens of instances which can be cited in which the Crispins founded co-operative manufacturing colonies and installed the most modern machinery of their day. Thus the American "Workman" (Boston, Oct. 2, 1869) reports that in February 1869, a co-operative colony was started by fifteen Crispins at St. John's, New Brunswick. In July they had 150 members and \$20,000 "and had set in motion the best factory ever started there, the most improved machinery being installed." "The Workman's Advocate" (Chicago, Jan. 1872) tells us that "The Monumental Boot and Shoe Factory of Philadelphia, Pa., is a co-operative factory, the second floor is the cutting and

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fitting department equipped with the latest improved machinery and appliances."

Strong objection is still interposed to the Crispin principle of controlling the supply of labor by refusing to aid in teaching apprentices. The Crispins, on the other hand, in theory at least, maintain the justice of protecting the approach to their trade, for with the removal of all entrance restrictions, their craft would become so overstocked and competition so bitter, that it would yield them a very precarious living. They strove for a policy which guaranteed them a share in the pecuniary advantage obtained from the free use of machinery.

#### THE LASTERS

*Their History.*—The lasting process was one of the very few processes, if not the only process in shoemaking that had escaped the revolutionizing effect of successful machines. To fit the upper to the sole was work that had to be performed by hand for it required judgment and experience. The hand laster gave shape to the shoe and hence felt that his trade was above the possibilities of machinery. But as we saw in a preceding connection, their blissful assurance was soon dispelled when the inventor's genius set to devising mechanisms for this branch of the craft. But by 1875, lasting machines were already used on all second class shoes and even on some of the better qualities. At that time the Knights of St. Crispin were not strong and active enough to be counted among the living. The lasters found that they were beginning to suffer all the ills that labor is heir to, when a great industrial change sets in which robs it of its skill, increases output, decreases wages, and overstocks the market in a short time. Late in 1879, sixteen lasters of Lynn, Mass., organized a union which they kept secret for a time as a protective measure. In six months, the union was strong enough and had enough members of the trade enrolled, to call a strike in Lynn's largest shoe factory. Since the organization came at a crucial time, when the trade was highly demoralized, it grew rapidly and in 1885 had spread to Haverhill, North Adams, Marblehead, Stoneham, Brockton, Salem, Beverly and a dozen other shoe towns. In 1886, there were 63 locals in New England alone, having a combined membership of 10,000. In 1895, the Lasters' Protective Association of N. A. became affiliated with the modern Boot



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and Shoe Workers' Union and thus with the Knights of Labor.

*Their Attitude.*—The lasters are usually severely censured for their policies and programs on the machine question. As we go into the history of their organization, we find that although they did not repeat the errors and weaknesses of the Knights of Saint Crispin, they could not shake themselves free from the attitude of the latter on the question of machinery. We find in their constitution, no discrimination against machine operators, but a decided attempt to control the members who enter the craft since the machine made it rather simple to gain admittance without skill. We can best obtain their attitude by following some of the essential points in their constitution.

*Membership.*—“Any male laster shall be eligible to become a member of the union who is at work lasting, and who bears a good reputation in matters of his craft. Female lasters, when working in sufficient numbers, may be organized into a separate local.” Membership in the union was open to both hand and machine workers.

*Teaching New Help.*—“No branch shall be permitted to give authority to any member of its union to teach, or in any way, aid a person to last.” We see then that the lasters tried to duplicate the old policy of the Knights of St. Crispin and thus reserve for themselves the skill they had and the little dexterity that lasting now required.

*Machines.*—There were three provisions in the active program which sought to provide for the machine problem.

(1) “When a lasting machine is introduced in any shop under the jurisdiction of the union, or when changes are made in the methods of use of existing machinery, the general secretary must be notified of the fact at once.” This is not a bad provision for it helps the union to keep tab on changes both actual and contemplated. Being forewarned, it is forearmed and it can make such preparations as will curtail the inevitable friction and minimize the usual suffering.

(2) “No member may operate or aid in operating any of these machines without the permission of the union.” This red tape, granting and refusing permission, would not have been repeated in the lasters' constitution, had the lasters profited by the sad experience of the former unions. The worker should have been free to shift from hand to machine labor at will, and, in fact,

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should have been encouraged to do so, in order to bring on the inevitable change and the transition more speedily.

(3) Special committees shall be appointed to keep the union advised of the progress made by the lasting machines.

We can reduce the lasters' attitude to a question of control. They surely did not open their arms and welcome the machinery, but they did not, on the other hand oppose it. They sought to control its introduction for the same reason that actuated other unions similarly placed. But to take a position that is either neutral or short of a positive welcome to machinery, will not bring about the best results. While we can show no one strike among the lasters, directed against the machines themselves, we can show a number caused by matters relating to their introduction, and many that could have been avoided if the attitude of the workers was most positive and definite in its declaration for the machine. Geo. McNeil in his "History of the Shoe Industry" (*Boot & Shoe Journal* 3/1900 P. 81) sums up the life of the Lasters prior to 1895 with the statement: "The Lasters' Union was very fortunate in securing the services of some of its ablest members as officers, and would have been still more fortunate had it followed their advice more closely, especially as to machinery and higher dues."

#### THE MODERN "BOOT AND SHOE WORKERS' UNION OF N. A."

*Its History.*—In August, 1895, the workers of this industry succeeded in establishing a national union under whose banner all the separate locals could be gathered, in the hope of organizing a strong enough body to effectively improve working conditions, especially in the matter of salaries and hours. The dues are ten cents weekly to the locals, and ninety-six cents annually to the National Union. The Union is weak, has no strike fund and relies for its strength on the respect that union labor inspires and the sympathy that it can win. The other causes which prevent it from becoming strong and powerful are the surplus labor in its field, the constant influx of unskilled workers, and the shifting of the old shoe workers to other crafts, i. e., the lack of permanency in its labor ranks, the low wages, intensified by the protracted "slack seasons" and long hours in the regular working day. The Constitution makes no mention of machinery. It treats the industry as if it were never anything but a machine

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craft. The Constitution declares the union open to all male or female workers over sixteen and fixes the initiation fee at \$1.00, —a tax that is not prohibitive. It further decides that apprenticeship regulations shall be fixed by each local but the apprenticeship rules shall be approved by the general union.

*Its Attitude.*—The modern union does all it can to encourage the introduction of machinery and thus ease the burden of labor. Wages are about as low, and hours as long as they can be set, hence there is little to fear. When a new machine comes out, we find the *Boot and Shoe Journal* publishing a full description of it, its *modus operandi*, cost to employer, advantages and disadvantages, speed and output, together with a picture of its parts. All this is printed, the editorials explain, “to acquaint our members with a progress in the machinery of our craft and tell them how to work it.” In conclusion, it has this warning:—“Past experience having proven the utter futility of opposing the introduction of machinery in the shoe trade, we advise our members to accept this machine on its merits, feeling sure that if the machine has merit, it will be introduced in spite of the opposition that may be brought against it; and if the machine cannot be operated successfully, and to the advantage of the manufacturer, it will be discarded without opposition on the part of the shoe cutters. And if the machine is to prove successful, we desire that our members should secure the advantages which can only be secured by accepting the machine on its merits, and endeavoring to obtain the very best price possible.” (*Boot & Shoe Journal*, May, 1908).

Neither the individual shoe workers nor their various organizations did much, if anything, hostile, or inimical to the best interests of machinery in the craft during the last twenty-five years.

We find that in five years only one strike out of a total of 95 was directed against machinery, a creditable figure of about 1%. This is sufficient proof of a changed policy and a conciliatory attitude of labor towards the introduction of revolutionizing machinery. Of a grand total of 155,744 establishments that had labor troubles of all kinds, only 221 were hampered by matters regarding the installation of new machinery. Most of these machine struggles arose out of these minor matters of adjustment and were not waged against the introduction of mechanical improvements *per se*.

*(To be continued)*

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## EDITORIAL

### As Others See Us

The *London Accountant* reprints a circular letter announcing that certain English accountants who have had experience with leading firms on the American continent and in Scotland have commenced business in an American city. The letter speaks of the "special facilities" which the members of the firm have had for acquiring a large and varied experience in the profession of accountancy, promises utmost care on all work and "prompt and careful attention to the interests of clients," and expresses the hope that they will in a short time "win the confidence and esteem" of the business men of the city in which they have located. Attached to the letter is a long memorandum of the kind of work which these public accountants are willing to undertake, in which mention is made of practically all kinds of audits, investigations and systems. Commenting on this letter the *Accountant* says:

The view has been expressed in some quarters that whereas it is unseemly that Chartered Accountants should under any circumstances descend to advertising or touting for business, yet regard must be had to the customs of the country where they are in practice, and that accordingly the rules against advertising ought not to be enforced too strictly

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in the case of Chartered Accountants practising in the United States, seeing that advertising is very common, even among the best native practitioners. We are not quite sure that it is a fact that the really leading firms of professional accountants in the United States do advertise at all; but even if it be, and even if there be some force in the argument above stated, it is clear that there must be some limit to what can be regarded as not unprofessional advertising, and we cannot help thinking that the following circular issued by a firm of accountants practising in the States is outside this limit.

We assure the *Accountant* that the leading and representative firms of public accountants in the United States do not indulge in any kind of advertising which would tend to lower the dignity of their profession. In other words, they do not tout for business. It is perfectly good form in the United States for a new firm of accountants to publish a card announcing the fact of its organization and to give a wide circulation to its card of announcement. It would also doubtless be considered quite proper for a firm of accountants, upon opening an office in a new city, to insert a card of announcement in the local newspapers and to keep it there for a limited period. If a firm should make special claims to ability, or with regard to the thoroughness and promptness with which they did their work, or should advertise that they were prepared to audit anything from a corner grocer to a railroad corporation, they would inevitably be regarded as "quack" or "shyster" accountants.

As THE JOURNAL has frequently had occasion to remark, it is still possible for a cheap and pretentious practitioner to obtain business in some American communities through the medium of specious and undignified advertisements and circular letters. This possibility exists because in many American communities very little is known about the nature and importance of the public accountant's work. Business men think of him merely as an unusually experienced bookkeeper and do not regard him as a professional man. They put him on a par with building contractors, painters, piano-tuners, plumbers and watchmakers. Since these "experts" all advertise the superior qualities of their wares and work, why should not the public accountant? So long as it is possible for that question to be asked in an American community, there will be no lack of "expert bookkeepers" ready to exploit a tempting opportunity for profit by advertising themselves as pub-

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lic accountants able to save business men millions of dollars if they are only given a trial.

We regret to say, however, that indirectly the accounting profession is responsible for a certain kind of advertising which is beneath its dignity. We have reference to the newspaper and circular advertising of the audit companies which are doing business in nearly every large city in the United States. Some of these companies are under the control of directors who are not themselves public accountants, and they advertise for business quite as freely as do banks or insurance companies. The public accountants whom they employ do not as a rule get any personal advertising, yet the work they do, and the income they earn, are the product of advertising. Indirectly, therefore, they are advertisers and are violators of the code of ethics which the leading accountants of the country are seeking to establish. So long as the audit company continues to advertise and to prosper, it will doubtless be impossible to restrain individual accountants here and there from seeking to get business by means of auditing company methods.

There are two convincing reasons why public accountants should not seek to get business by advertisement or in any way claim special qualifications for their professional work. In the first place, the strong firms already established could by advertising and by opening branch offices in various parts of the country easily obtain possession of practically all the accounting business in the United States. The smaller accounting firms, being unable to spend money so lavishly in self advertisement, would gradually be compelled either to go out of business or to go to work for the great accounting firms, which would everywhere have command of public confidence. In other words, the commercialization of accountancy would logically end in an accounting trust. Evidently, therefore, it is the small man, the beginners, the weak firms—those who are now most tempted to advertise—who would suffer most should a failure attend the present effort to make accounting a dignified and recognized profession. The second reason why the public accountant should not advertise is found in the nature of his work. It is brain work, and it is an unwritten law among men that only liars, prigs and fools shall be permitted to announce themselves as specially qualified for intellectual effort.

## Efficiency and Railroad Management

Mr. Louis D. Brandeis, attorney for the shippers who are protesting against an advance in railroad rates, started a very interesting discussion when he declared that the annual cost of railroad operation in the United States was about \$300,000,000 greater than it need be. American railroads, in the opinion of Mr. Brandeis, are wasting \$1,000,000 a day. The western railway presidents promptly challenged his assertion and offered him any salary he might name if he would make good his claim with regard to their unnecessary expenditures and show them wherein costs could be further reduced. Mr. Brandeis met the challenge by offering to make good his contention gratis. It is doubtful if many people have taken Mr. Brandeis seriously. The general impression prevails that American railroads are not operated with the utmost economy. There is a suspicion that their supplies are often bought, not from the lowest bidder in an open market, but from concerns whose profits are shared by directors and large stockholders. There is also a suspicion that contracts for improvements are too often given at excessive figures to subsidiary or barnacle corporations in which the friends or relatives of railway directors are interested. That practices of this sort dissipated the earnings of railroad corporations a generation ago the public has positive knowledge, and people are still inclined to believe that a railroad's treasury is a hogshead with too large a bung hole.

On the other hand, students of railway affairs, on both operating and financial sides, have discovered that within the last twenty years marvelous changes for the better have been wrought in the methods of railway management. As a general proposition it may now be safely stated that American railways are under the control of men who are looking for dividends legitimately earned, rather than for subterranean profits through the exploitation of minority stockholders. It follows, then, if Mr. Brandeis is right in his conclusion, that the owners and operators of railways are less wide-awake or less intelligent than the men who own and operate the great mills and factories. We do not believe that the railroad managers of this country can be convicted of any such lack of intelligence.

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Nevertheless it would undoubtedly be possible for Mr. Brandeis, or for any other man familiar with recent improvements in business organization and shop-management, to discover in the affairs of almost any railroad ways of saving money or of increasing efficiency. But no man could accomplish this task, even in the case of a single road, unless in the first place he were well equipped for the work, and unless, in the second place, he gave his undivided attention to the investigation for a considerable period of time. That Mr. Brandeis or any other man can demonstrate in a wholesale way the inefficiency and extravagance of American railroads is almost an absurd proposition. As businesses, no two railroads are alike and a policy that might be effective and economical with one, might be wasteful and impracticable with another. It is well, however, that the attention of railway managers has been strikingly called to the necessity for continuous and increasing economy. Railroads are in many respects monopolies, and in prosperous times, when fat dividends are assured, there is always danger that money may be spent loosely and foolishly, for minor items of expense are then less carefully scrutinized. The railroads need in their employ the services of economy experts, men whose special business it is to increase the efficiency both of machines and of employes. The accounting profession, we are glad to say, is giving more and more attention to this department of its work and might be of great assistance to the railroads if it were called upon to show how costs could be reduced. The profession must not be content with supplying the railroads of the United States with auditors and comptrollers; it must specialize deeply in railway costs and must be prepared to show railway men how they can cut operating expenses and thereby increase dividends without raising rates.

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The question of efficiency in railroad management was ably discussed by President Edward L. Suffern of the American Association in a recent interview, which is reprinted in part on another page of the JOURNAL. President Suffern's long experience in accounting, as well as his present position, entitle his views to a great deal of attention not only from accountants but from other business and professional men.



## University School Honors Accountant

### A Bronze Tablet in Memory of Charles Waldo Haskins is Unveiled in the New York University School of Commerce, Accounts and Finance

Of interest to accountants all over the country was the unveiling, on Saturday evening, December 17, of a bronze memorial tablet in honor of the life and services of the late Charles Waldo Haskins, first Dean of the New York University School of Commerce, Accounts and Finance. The tablet, which was the work of Rudolph Evans, a young sculptor who recently won a medal of honor at the Paris Salon, was the gift of the Class of 1910 and other alumni of the School and friends of Dean Haskins.

The unveiling exercises, which were held in the University building at Washington Square East, were very impressive and included addresses by a number of well known accountants and business men. Professor Leon Brummer who was Secretary of the New York State Society of Certified Public Accountants in 1900 told about the founding of the School in that year. He paid a warm tribute to the work of Dean Haskins who was at that time President of the Society and who in spite of the pressure of other duties consented to be the first Dean of the School. Professor Brummer has been actively connected with the School ever since its foundation and he showed how largely the plans and ideals of Dean Haskins were responsible for the present growth of the School. Dr. John H. MacCracken, Acting Chancellor of New York University, then discussed the share of the University in education preparatory to accountancy and other business professions. The third address, that of Mr. Frank A. Vanderlip, President of the National City Bank, summed up the ideals of Mr. Haskins for the profession and education for it. Myron T. Herrick, Ex-Governor of Ohio, told of his friendship with Dean Haskins and of the movement for higher commercial education, in which Dean Haskins was a pioneer.

Mr. W. L. James, a member of the recently graduated class of 1910, presented the tablet in behalf of the alumni and friends who had made the gift possible. Dean Johnson received it for the School, and it was unveiled by Miss Dorothy Sells, daughter of Elijah W. Sells, a partner of Dean Haskins in the firm of Haskins and Sells, C. P. A.'s.

The exercises while simple were of remarkable dignity and beauty, and the number of prominent guests present attested to the esteem in which Dean Haskins was held by both the business and educational world. It is a matter of congratulation for accountants that one of their number, whose life was so largely given up to the advancement of the profession and of the preparation for it should be so honored in an educational institution. While Dean Haskins did not live to see his plans consummated, he had placed the School on a firm foundation and its growth to its present enrollment of over one thousand students is due largely to the farsightedness and energy with which he worked in its beginning.

## President Suffern on Railroad Efficiency

The following extracts from an interview with President Edward L. Suffern of the American Association of Public Accountants, in which he comments upon some of the statements recently made by Mr. Louis D. Brandeis at the Interstate Commerce Commission hearings on the proposed increase in railroad freight rates, are re-printed from the *New York Times* of December 4.

"To the outsider, it does not seem, in general, that the case of the railways has been well sustained in the face of the somewhat pitiless examinations conducted by Mr. Brandeis, and the testimony presented by him through the shippers' witnesses.

"The broad argument of the railways that the advances in labor and material costs make necessary the advances in traffic charges in order that profits should be maintained, seems, on the face of it, entirely reasonable; but, as against this, the general contention of the shippers is that increased efficiency would largely offset this increased cost of maintenance and transportation. In support of this theory, evidence has been lately introduced which would possibly seem to justify this conclusion. This is of great interest to the accountant, as he is a firm believer in the efficiency factor as a producer of profits.

"There is unquestionably great waste permitted through the methods of administration common to so many railways through the lack of the constant, intelligent, and trained supervision of every department of production, which characterizes many of our industrial corporations. A striking instance of this lack was the defalcation of several hundred thousand dollars in one of the railway companies controlled by America's greatest railway. According to the published statements, the method through which the defalcation occurred was so absolutely crude that any outside investigator would have discovered it within the first day or two of his investigation. The glaring inadequacy of a system which would permit such transactions to occur gives large support to the contention of the need of greater efficiency. While this need is positive, it cannot be said to be equally necessary in all railways, many of our larger systems being administered with marked efficiency through the close supervision of all details and the equally close supervision of their accounts.

"While the principles controlling efficiency remain the same, their application is so different that too much emphasis should not be given to the argument of their value to railway management, (or at least not in the same degree,) because they have been found valuable in industrial management; the differences between them are too distinct. In an industrial enterprise, even if the producing operations be carried on in a number of separate and distinct plants, it is nevertheless true that at the head of each plant there is one who is in constant close contact with the heads of each department and can exercise, through personal observation of each department and each process therein, a direct and personal control.

"This policy may be, and in some cases is, carried out in railroad shops and in the purchase and accounting for material, but is not true of

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the production end of a railway. In a large system covering thousands of miles there will, it is true, be the separate divisions under the head of Division Superintendents, but the operations involving traffic are not concentrated but distributed over many miles, and each station is a producing unit in itself, producing, however, not standardized outputs, but distinctly diverse ones.

"It is unfair to compare the results of the highly skilled methods obtaining in a well-managed manufacturing enterprise with the results to be obtained through railway management—the conditions are so different; in the one the product is made on standardized lines; in the other, the product is the handling of freight, which varies in character and classification one station with another, varies in amount delivered at any one time, demands special handling if it be of a perishable character, and does not and cannot lend itself to any but very general forms of standardization. In the manufacturing enterprise, there may be a couple of hundred men in one department and under the personal eye of the head; in a railway, in the producing department, i. e., in the handling of freight, that same number of men might be distributed over a length of line of a hundred miles, and clearly, the Superintendent could have no such control over them as in the case of the manufacturing enterprise.

"Apparently, another very important difference has not been considered, and that is the intermittent character of the railway business as compared to the manufacturing or distributing. If the distribution end of a business be quiet, it may, and generally does, happen, that the manufacturing end may still be running on advance orders or for general stock, and so the economy of production be maintained; but in a railway, it can only transport freight when freight is offered for transportation; it cannot carry freight in advance, and, consequently, cannot, in dull times, handle its traffic as cheaply as when the traffic is large. Empty trains produce no revenue. In justice to the railway's position, only proper and reasonable credit should be given to the opposing contentions."

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## Virginia Accountants Meet

The regular quarterly meeting of the Virginia Association of Public Accountants was held December 8, 1910, in Norfolk, Va. An informal address was delivered by Judge Thomas H. Willcox on the subject: "The Relation between Attorneys and Public Accountants." Judge Willcox called attention to the value of simple concise reports and also to the value of public accountants of high standard. He expressed a belief that the Association was doing a great work in standardizing and elevating accounting, and advised his hearers to lend a hand to embryo accountants that they may qualify to the standard set by the Association. Papers read at the meeting were as follows:

"Manufacturers' Costs," by Thomas A. Hare, Norfolk.

"The Accountant, His Responsibility," by A. M. Pullen, Richmond.

"Office System," by W. P. Hilton, Norfolk.

## Correspondence

### The Future of Irrigation Bonds

Denver, November 10th, 1910.

TO THE JOURNAL OF ACCOUNTANCY:

Living in the center of a well-recognized district of irrigation operations on arid lands, I have read with considerable interest the article by R. H. Hess in the October number of your Journal and I wish to pronounce it as a most excellent exponent of facts, the best existing in this direction.

I am exceedingly glad that Mr. Hess has sounded the note of apprehension and warning the public as to possible failures in this direction. But there is one important point which he has omitted to elucidate upon in his article and I wish to call your attention to that at this time.

On the second page of his article he mentions that the undertaking will prove a failure if "the available water supply is misjudged." This is a point I wish to bring out more prominently.

Since the wild-cattling in mining in the Western States has been stopped by the wise investing public through the means of refusing to support them any further, the wild-catters and promoters have turned their attention to the promotion of irrigation schemes with the result that such enormous quantities of waters have been filed upon for future appropriations that an ordinary sane person can easily figure that no such quantities of waters will ever become available. The laws, it is true, provide the method of filing on water but the basic principle of the law of irrigation (which, of course, is never included in the statutes creating irrigation districts or in the Cary Act) is that no indisputable property rights accrue except by appropriation and proper continuous use within a reasonable time after the act of appropriation. Therefore, if in the present state of development, more water has been filed upon and more irrigation systems have been started by the floating of bonds than there possibly can be a supply of water, the inevitable result will be that some time in the future irrigation projects will be completed and there will be no water for them or future projects may be finished and the water will be there, but the land cannot be settled in order to constitute the proper use of water which gives the permanent title to that water.

The conclusion to be drawn from this is, that while the irrigation bond situation at the present time may be satisfactory, it is bound to get worse as time passes on, a point which the investor in bonds would overlook.

Respectfully yours,

J. B. Geijsbeek.

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EDITOR'S NOTE.—As a result of an unfortunate misunderstanding, for which THE JOURNAL OF ACCOUNTANCY was not responsible, Mr. Hess' article, referred to in the foregoing, was published in the September number of the *United Banker and Investor*, of Minneapolis.

## Book Department

EDITED BY LEE GALLOWAY, Ph.D.

A COURSE IN THE THEORY AND PRACTICE OF HIGHER ACCOUNTING, by HENRY HEITMANN, Ph.D., Instructor in Eastman College. Published by Eastman College, Poughkeepsie and New York City, 1910.

It is to be supposed that every author has an object in giving expression to his views in the form of a book. In most instances it is probable that the object is to supply the demand for information of the nature which the author feels qualified to impart. Whether or not the author has been accurate in his judgment as to the demand and to his qualifications, depends upon the contents of his books and the reception which it receives. A perusal of "A Course in the Theory and Practice of Higher Accounting" leaves little doubt in the mind of the reader that its author is amply qualified for the task which he has undertaken. His rare qualifications are displayed throughout his entire book and he has done his work well. He is also correct in his conclusion that there is a great demand for a book of the kind which he has prepared. The demand is not confined alone to business colleges and high schools; it exists in schools of commerce of university grade throughout the United States.

The title of the book in question appears to be somewhat misleading and in order that this review may not be guilty of having transgressed in the same manner as that ascribed to the author of the book, it is proposed to say just a word as to the viewpoint which the critic takes. The criticism is based entirely upon the use of the word "accounting." Briefly stated, accounting differs from bookkeeping in that it involves a knowledge of the principles underlying the work of the accountant rather than a knowledge of technic, or the manner, or method, in which the work is accomplished. The book under discussion pays comparatively little attention to the principles upon which the work is founded. It is rather a thorough explanation of the manner in which the work is to be performed. It is probable, therefore, that it might be more accurately described were it to be called a treatise on advanced bookkeeping.

The arrangement of the book is admirable. In general it is based on the various types of organization and the subject is developed logically, not only with regard to the illustration of the principles, but their relation to the organization. The transactions are arranged in narrative form. They are numerous and comprehensive.

The entire book is divided into six parts. The first five cover the development of organization extending from single proprietorship through partnership and incorporation and ending with trust organization and operation. Part six embraces fifteen special propositions in accounting practice.

The chapter on single proprietorship discusses accounting materials and accounting technique, which are followed by a series of transactions

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pertaining to single proprietorship accompanied by full explanations for entering the transactions; also explicit directions for closing the books and preparing business and financial statements.

Part two is made up entirely of transactions particularly applicable to trade expansion, and the beginning of manufacturing.

Part three discusses systematic manufacturing procedure, and cost accounting technique, and in addition to the narrative of transactions contains forms showing departmental distribution, raw material accounts and departmental time records.

Part four treats of expansion of manufacturing and its conduct according to approved precepts of finance; also corporate management with the accompanying formality and subsequent transfer to "trust" management. Considerable attention is given to corporate procedure and corporate accounting. This chapter is especially interesting in that it contains a fac-simile certificate of incorporation, rather than a customary statement as to what a certificate of incorporation should contain.

Chapter five having to do with "trust" organization and finance, sets forth a resolution adopted by the concern interested in the organization of a consolidation, or so called "trust."

The special propositions comprising part six, cover audits, investigations, partnership, formation, partnership fiscal closing, corporation merger, partnership dissolution, account current, joint account, insolvency, accounting of fire loss adjustments, executors' accounts, trust estates, foreign banking accounts, club accounts and municipal accounts.

J. R. W.

THE CITY OF THE DINNER-PAIL, by JONATHAN THAYER LINCOLN.

Published by Houghton, Mifflin Company, Boston & New York, 1909.

Price, \$1.25 net.

If business men employing labor would approach the difficulties with laborers with the same openmindedness and sympathy displayed by the author of this book many more solutions would be found and quicker. To understand the problem, the individuals who are the vital factors in it must be known—and known as they are in their homes or at their looms.

Mr. Lincoln has approached the subject from the point of view of the practical man who wants results to show in the business. He avoids the broad generalizations of the sociologist and the sensational statements of the agitator. He believes in the square deal for both employer and employee but he thinks the best way for each to judge of the other is for the employer "to touch elbows with the man who carries the dinner-pail."

Furthermore the author has stated in popular language what Mr. John Hobson has put in a philosophical way: the vital relations of the laborer to machinery. For instance he calls attention to the fact that a machine is merely a man multiplied many times so far as productive capacity is concerned.

The efficiency which the machine brought to the employer must to-day be supplemented by a further application of the machine method to the

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factory organization which involves the coordination of the laboring forces. The organizer of men to-day stands in place of the inventor of machinery a generation ago. But his problem is the more complicated of the two. He is dealing with human life and energy which must be employed as opportunity offers. A day lost to the laborer is gone forever. Other commodities which enter into a product may be put aside and used tomorrow. It has no hopes, purposes or ambitions of its own. Furthermore as the manufacturing and commercial organizations increase in size and complexity the manager must equip the organization with the means of getting the loyalty, devotion and enthusiasm of an army of men. The author suggests that these elements may be won for the factory as well as for the trades union. To gain the support of laborers the manager must not be content to rely on mechanisms—the time clock is taken as an example. The amount of work which each man accomplishes during the day depends upon other factors than the mere hours of labor. The spirit in which the work is done counts. And a good spirit is a result of correct personal relation existing between the office and the shop.

“The relation between the employer and the employee which the time clock symbolizes is wholly bad. This relation is graphically set forth in a circular I once read, advertising these machines. ‘Do you employ one hundred hands?’ it asked, ‘do you realize what the loss of five minutes a day by each man means to you in loss of profits in one year? Suppose your average wage is two dollars a day; fifteen hundred hours at twenty cents an hour. Three hundred dollars! Think of it! And if you employ a thousand hands your loss will be three thousand dollars. Can you afford this?’

“At first it would seem that the only answer to the question must come in the form of an order for clocks; but upon reflection the employers may rely: ‘Possibly I can and possibly I cannot. If I consider each man in my employ as a machine which the overseer sets in motion each morning, as the operative starts his loom by pressing the shipper-handle, I cannot afford it. But if I look upon the worker as a man capable of infinite growth, then the three hundred or three thousand dollars may be as nothing in my cost of manufacturing. The day does not begin at any given moment. A man may press his button on the time clock promptly at seven every morning in the year, yet the same man may cheat me out of three hundred hours every twelve months.’”

The two closing chapters of the book have to do with the relation of the individual worker to the trades union and to the aristocracy. However it is with the other relations mentioned that the business man will be chiefly interested; especially in view of the recently awakened interest in productive efficiency upon railroads and large industrial undertakings. Although personality is emphasized as the chief point to be studied in solving the labor question the book will make valuable supplementary reading to those more technical books dealing with systems of labor payment, standardization of employment and processes and the general question of functional foremanship.

L. G.

## Legal Department

EDITED BY CHARLES W. GERSTENBERG, Ph.B., LL.B.

The Legal Department of THE JOURNAL OF ACCOUNTANCY is prepared to render a genuine service to its subscribers and readers, by undertaking to answer legal questions submitted to it. These questions, while they may be suggested by the problems that arise in the practice of our correspondents or by the more theoretical requirements of examination boards, should always be so stated as to call for single propositions of law. Whenever the Department receives a query the correct answer to which may vary with many possible but unstated circumstances the correspondents will be asked to give the details or advised to consult local counsel. Reasonably prompt replies by the Department will be made by personal communication or through the columns of THE JOURNAL. Address all communications to THE JOURNAL OF ACCOUNTANCY, Legal Department, 32 Waverly Place, New York City.

### LIABILITY OF STOCKHOLDERS OF CORPORATIONS OPERATING IN CALIFORNIA

The following decision of the Supreme Court of California (THOMAS vs. WENTWORTH HOTEL CO., 110 Pacific Rep. 942) is very important and should be carefully noted by readers interested in corporations operating in California. It is here held that the exceptional Californian unlimited liability rule applies to stockholders in foreign as well as in domestic corporations.

Sloss, J. The defendant Warner, a stockholder of the Wentworth Hotel Company, a corporation, appeals from a judgment against him for his proportionate share of the indebtedness of the corporation evidenced by two promissory notes executed, and by their terms payable, in this state. The appeal is on the judgment roll alone.

The appellant contends that each of the two counts is defective in failing to allege the number of shares of stock of the corporation which had been subscribed. Since the liability of each stockholder is measured by the proportion which his stock bears to the "whole of the subscribed capital stock or shares of the corporation" (Civ. Code, § 322), it is plain that an averment of the amount of such subscribed stock is an essential part of the cause of action. Without it there is no showing of one of the elements necessary for the computation of the "proportion" of the debt for which the defendant is liable. *Bidwell v. Babcock*, 87 Cal. 29, 25 Pac. 752; *Roebing's Sons Co. v. Butler*, 112 Cal. 677, 45 Pac. 6.

The allegation of the complaint before us is that at the time the indebtedness was incurred "the total number of shares of the capital stock of the said defendant, Wentworth Hotel Company, then outstanding was thirty-five hundred." The word "outstanding" can hardly be said to be the exact equivalent of "subscribed," and its use in a pleading of this character is not to be commended. At the same time it is no stretch of construction to say that, in view of the purpose of the action, the pleader was endeavoring, by means of the allegation quoted, to set forth the amount of the total subscribed stock. In one of our own decisions (*Knowles v. Sandercock*, 107 Cal. 629, 40 Pac. 1047), the word "outstanding" was used in the sense here indicated. In speaking of an action to enforce the liability of stockholders, the court, per Temple, J., stated that "it was incumbent upon the plaintiff to prove the whole amount of stock outstanding to enable the court to determine the liability." That this mode of expression is found in the course of the argument in an opinion is, of course, no ground for saying that it is sufficient for the purposes of a pleading. We may, however, take it as furnishing some basis for the contention that the word "outstanding," as applied to shares of stock, may bear the meaning of "subscribed." If this be so, there is not a total failure to allege the necessary fact, but rather an imperfect or ambiguous averment. Such defect should be reached by a demurrer pointing out the special objection. *Ryan v. Jacques*, 103 Cal. 280, 37 Pac. 186. No demurrer, general or special, was interposed here, and we think that after trial and judgment this should be treated as "a case of defective pleading which may be waived, and not an entire omission to



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plead a material fact which is fatal." *Kimball v. Richardson-Kimball Co.*, 111 Cal. 386, 43 Pac. 1111.

The appellant makes the further point that, under the facts shown by the pleadings and the findings, there is no liability on his part. The *Wentworth Hotel Company* was incorporated under the laws of the territory of Arizona. The complaint alleges that it was organized for the purpose, among other things, of transacting business in the county of Los Angeles, state of California. The answer does not undertake to deny this otherwise than by the averment that "the only words in the articles of incorporation of said defendant company which concern its possible purpose of doing business outside of the territory of Arizona, are as follows," quoting provisions of the articles to the effect that the principal place of business in Arizona is Tucson, and the principal place of business outside of Arizona shall be in the city of Los Angeles, or at the option of the board of directors, the city of Pasadena, California, at which place meetings of stockholders or directors shall be held, and quoting further provisions of the articles describing the business to be transacted in very comprehensive terms. The findings follow the averment of the complaint that the corporation was organized for the purpose, in part, of doing business in Los Angeles county, but state, further, that the articles of incorporation contain nothing concerning the intent to do business, outside of Arizona beyond the matter quoted in defendant's answer. This last finding does not, however, modify the finding that the purpose was, in part, to transact business in Los Angeles. The answer raised no substantial issue in this regard. The articles, so far as set forth in the defendant's pleading, plainly declared the purpose of transacting some, if not the principal part of the corporate business in Los Angeles county. The court found, further, that at the time the liabilities upon which the action is based were incurred the corporation was actually doing business in said county and the appellant was a resident of this state.

The appellant's claim of exemption is based upon the following allegations of his answer, which were found by the court to be true. The laws of Arizona, under which the *Wentworth Hotel Company* was incorporated, provide for the formation of corporations for the transaction of any lawful business, and that such corporations shall have power, among other things, "to exempt the private property of members from liability for corporate debts." The articles of incorporation are required to state whether private property is to be exempt from corporate debts. If not so exempted, stockholders are liable for the debts of the corporation in the proportion which their stock bears to the whole capital stock. The articles of incorporation of the *Wentworth Hotel Company* expressly declare that the stock shall be nonassessable, and that "the private property of the stockholders of this corporation shall be and is hereby made forever exempt from all liability for its debts or obligations." Certified copies of these articles were filed with the Secretary of State of California and with the clerk of the county of Los Angeles. The facts so set up and found do not constitute any defense to the action—a conclusion which requires no support further than that afforded by a citation of the cases of *Pinney v. Nelson*, 183 U. S. 144, 22 Sup. Ct. 52, 46 L. Ed. 125, and *Peck v. Noce*, 154 Cal. 351, 97 Pac. 865. In the first of these cases it was held that stockholders of a Colorado corporation, whose articles of incorporation declared its purpose of doing part of its business in the state of California, were liable according to the provisions of section 322 of the Civil Code for liabilities incurred by the corporation in the latter state, notwithstanding the fact that under the laws of Colorado a stockholder is not liable for any portion of the corporate debt. In *Peck v. Noce* the rule was applied to the case of a corporation organized under the laws of Nevada, whose Constitution provided that "corporators of corporations formed under the laws of this state shall not be individually liable for the debts or liabilities of such corporations." The appellant

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has not succeeded in distinguishing the case at bar from those cited. It is true, as contended, that the liability of stockholders rests upon contract and that the terms of the contract between the incorporators are ordinarily to be ascertained from the articles of incorporation, read in the light of the statute which authorizes the creation of the corporate body. But, as is pointed out by the Supreme Court of the United States in *Pinney v. Nelson*, supra, when a contract is made with reference to the laws of a jurisdiction other than that of the place of contracting, the parties will be deemed to have incorporated into their agreement the law of the jurisdiction with reference to which they were contracting. Accordingly, says the court, "when a corporation is formed in one state, and by the express terms of its charter it is created for doing business in another state, and business is done in that state, it must be assumed that the charter contract was made with reference to its laws; and the liabilities which those laws impose will attend the transaction of such business." It can make no difference that in *Pinney v. Nelson* and *Peck v. Noee*, the freedom from individual liability was declared by statute or constitution, whereas here it was, under the authority of the statute, declared in the articles. The provision of the articles can have no greater force than is to be attributed to the express law of the state creating the corporation. Such law is, for most purposes, imported into the contract of the association and forms a part of it, whether stated in the charter or not. But, in so far as the charter or articles declare an intent to do business in another state, the law of that state becomes, so far as concerns business there done, a part of the contract. The articles, like the law itself, are not to be read as providing for exemption from stockholders' liability for debts to be incurred in a state which permits foreign corporations to come in only upon condition that the stockholders shall be liable for the corporate debts. And here is the answer to the suggestion that the filing, in this state, of certified copies of the articles conveyed to creditors constructive notice of the fact that the contract of the incorporators exempted them from liability and estopped the creditors from claiming such liability. The contract, properly construed, does not purport to apply such exemption to business done in California, and there is no ground therefore for the operation of an estoppel.

The appellant argues in his brief that in both of the cases relied on by the plaintiff the articles showed an intent to do the entire corporate business in California, whereas here the articles indicate an intent to do a part of the business of the corporation in other places. The supposed distinction does not really exist. The articles of incorporation in the *Pinney* Case declared merely a purpose of carrying on part of the business beyond the limits of Colorado, the state of incorporation, and provided for an office and place of business in Colorado. In this respect the articles are very similar to those of the corporation here involved. But, if the fact were as suggested, it would present no valid ground of discrimination. The fact that a corporation is formed in one state with the declared purpose of doing business in another justifies, as we have seen, the assumption that, with regard to the business to be done in such other state, the incorporators agree to be bound by its laws. It can make no difference whether they intend to do all or only a part of their business in such state. Their relations to the state into which they come, with regard to business there done, cannot be affected by the circumstance that they also intend to, or do, transact some business elsewhere. There is no injustice or hardship in this result. The law of this state declares in express terms that "the liability of each stockholder of a corporation formed under the laws of any other state or territory of the United States, or of any foreign country, and doing business within this state, is the same as the liability of a stockholder of a corporation created under the constitution and laws of this state." Civ. Code, § 322. This statute carries out the constitutional mandate that foreign corporations shall not

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be "allowed to transact business within this state on more favorable conditions than are prescribed by law to similar corporations organized under the laws of this state." Const. Cal. art. 12, § 15. These provisions existed when this corporation was formed for the express purpose of doing business in California. The stockholders, seeking to avail themselves of the permission granted by this state to foreign corporations to do business here, knew, or should have known, the terms upon which this privilege was tendered. They should not be allowed to take advantage of the benefits afforded by our law, at the same time repudiating the accompanying burdens.

The judgment is affirmed.

We concur: SHAW, J.; ANGELLOTTI, J.

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## Announcements

Harvey S. Chase & Company, Certified Public Accountants, of 84 State Street, Boston, Massachusetts, have announced that the partnership under this title expired by limitation on November 30, 1910. The business of the firm will be continued at the same address by Mr. Harvey S. Chase, Mr. Charles H. Tuttle, Mr. Arthur T. Chase and Mr. Walter C. Wrye. Mr. Henry D. Love and Mr. Francis Oakey will also be associated with the firm. Mr. Clinton H. Scovell, who has been a member of the firm for two years, retired on the above date by mutual agreement.

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Haskins & Sells, Certified Public Accountants, of 30 Broad Street, New York, have announced the opening of an office at Baltimore in the Equitable Building.

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Mr. Clinton H. Scovell, a certified public accountant of New York and Massachusetts, and recently a member of the firm of Harvey S. Chase and Company, Boston, announced on December first that he had opened an office for the general practice of public accountancy at 110 State Street, Boston, to be conducted under the style of Clinton H. Scovell and Company. Announcement has since been made that Mr. A. Hamilton Church will become associated with the office on or about January first.

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Walton, Joplin, Langer & Co. have announced the removal of their Chicago offices to Suite 1034-1036, No. 150 Michigan Avenue, where they will continue the practice of public accounting and auditing.

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## President Suffern Addresses Credit Men

At a meeting of the Pittsburgh Association of Credit Men, held on November 21, 1910, President E. L. Suffern, of the American Association of Public Accountants, spoke on the present-day tendency toward the improvement of credit conditions. At a more recent dinner, on December 8, Dean Joseph French Johnson, of the New York University School of Commerce, Accounts and Finance, discussed credit conditions.

## C. P. A. Question Department

Conducted by LEO GREENDLINGER, M.C.S., C.P.A.

Criticism and exchange of ideas will clear many a doubt and at the same time improve shortcomings. To solve, compare and criticize C. P. A. problems and thereby to aid in bringing about a uniform American standard for C. P. A. examinations, is the object of this department. With the aid of suggestions and criticism from the professional brethren, it can undoubtedly be achieved. Inquiries will be cheerfully answered.

Following are the papers of the first examination of the Virginia State Board of Accountancy, held in November, 1910.

### EXAMINATION IN AUDITING

November 17, 1910—1:30 P.M. to 5:30 P.M.

Answer twelve (12) questions, but no more. Do not repeat questions, but write answers only, designating the questions by number.

1. Give a brief outline of the duties and responsibilities of an auditor.
2. In auditing cash payments, how would you prevent the reproduction and passing of vouchers a second time?
3. In auditing the accounts of a corporation for the first year of its existence, what records and documents should be examined, in addition to the books of account and the vouchers?
4. If you had not been present to count the cash actually on hand at the date of the balance sheet, how would you afterwards verify its correctness?
5. How would you reconcile the balance shown by the bank settlement in the pass book with the balance shown by the check book or cash book? Having done this, is it necessary to check the deposits shown in the pass book with the receipts shown in the cash book?
6. In preparing the balance sheet of a corporation, how would you treat arrears of "cumulative" dividends on preferred stock?
7. To what extent is it permissible to carry as an asset the "organization expenses" of a corporation?
8. To what extent do you consider it necessary to verify the following: (a) Inventories; (b) Pay rolls; (c) Discounts; (d) Depreciations.
9. Give a full, detailed account of your procedure in auditing the cash account of a large mercantile corporation.
10. In auditing the books of a concern whose accounts receivable are kept in one or more subsidiary ledgers, with a proper controlling account in the general ledger, what verification, if any, would you make of such accounts?
11. State how you would verify the following: (a) Purchases; (b) Returned purchases; (c) Sales; (d) Returned sales; (e) Cash receipts; (f) Cash payments; (g) Journal entries.
12. State briefly, and in order of procedure, the different steps to be taken in a bank examination.
13. State your method of procedure in auditing the accounts of a building and loan association.

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14. Define and differentiate capital expenditure and revenue expenditure.
15. In the case of a corporation which has been in existence for several years, if you were engaged to audit the accounts for the last year only, would you consider it necessary to inspect the minute book, stock ledger, bond register or any of the entries in the books of account at dates prior to that covered by your audit? Give reasons.

EXAMINATION IN THEORY OF ACCOUNTS

November 17, 1910—9 A.M. to 12:30 P.M.

Answer twelve (12) questions, but no more. Do not repeat questions, but write answers only, designating the questions by number.

1. State the essential principles of the following forms of bookkeeping and describe the method of determining the profit or loss of a business under each system:  
(a) Single entry; (b) Double entry.
2. Define the following:  
(a) Gross profit; (b) Net profit; (c) Trading account; (d) Profit and Loss account; (e) Active assets; (f) Fixed assets; (g) Current liabilities; (h) Funded debt; (i) Cash discount; (j) Trade discount.
3. Define the following and state what essential difference there is between them:  
(a) Trial balance; (b) Balance sheet.
4. Define the following and state how each should be treated in the books of a corporation:  
(a) Reserve; (b) Sinking fund.
5. Define the following and state how you would treat them in a balance sheet:  
(a) Prepaid expenses; (b) Contingent liabilities.
6. Define the following and state some of their respective advantages and disadvantages:  
(a) Voucher system; (b) Loose Leaf system.
7. Describe the process of changing a set of books from single entry to double entry.
8. State the purpose and describe the process of analyzing a ledger.
9. What are controlling accounts? For what purpose are they employed and how are they conducted?
10. Name two methods of distributing the overhead or indirect expenses of a factory so as to equitably apportion the same to the cost of the different articles manufactured, and state briefly the advantages and disadvantages of each method.
11. How do the accounts of a corporation and those of a copartnership differ in treatment of the following:  
(a) Capital invested; (b) Distribution of profits.
12. Describe two different methods in ordinary use for writing off the premium on bonds purchased, stating briefly their respective advantages

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and disadvantages. What is the most scientific way of treating said premiums?

13. If called in to make an examination of the accounts of a mercantile concern which had suffered fire loss six months after the taking of the latest inventory, how would you determine the value of the merchandise on hand at time of fire? What verification of the accounts, if any, would you make?

14. Should a manufacturing concern invoice its goods sent to branch houses (1) at selling price, or (2) at the prevailing wholesale price of the same or similar goods obtainable in the open market, or (3) at cost? State advantages and disadvantages of each method.

15. Define cost accounting, and state wherein manufacturing or factory costs differ from commercial or selling costs.

EXAMINATION IN COMMERCIAL LAW

November 19, 1910—9 A.M. to 12:30 P.M.

Answer ten questions, but no more. Do not repeat questions, but write answers only, designating the questions by number.

1. State briefly the method to be followed in Virginia in each of the following:

(a) Forming an ordinary business corporation; (b) Dissolving an ordinary business corporation; (c) Issuing bonds of an ordinary business corporation.

2. Describe the following stocks and securities issued by corporations; state their leading characteristics, the assets securing them, respectively, and their order of preference in case of liquidation:

(a) Preferred stock; (b) Common stock; (c) First mortgage bonds; (d) Promissory notes securing loans.

3. Define the following:

(a) Liability of persons associating themselves together and engaging in business as a corporation, when the incorporation is defective or incomplete; (b) Liability of stockholders after perfecting the incorporation; (c) Public service corporations.

4. Distinguish between State (Virginia) banks and National banks in the following particulars:

(a) Method of forming; (b) Minimum capital stock prescribed by law; (c) Liability of stockholders in case of insolvency.

5. Collateral has been deposited with the payee of a promissory note, but with no special contract as to converting same or subjecting it to the payment of the note, which is not paid. How should the payee proceed to convert or subject the collateral toward the satisfaction of the debt evidenced by the note?

6. Give the order of payment in the distribution of the estate of a decedent.

7. When an endorsed promissory note is not paid at maturity: (a) What course should the holder pursue in order to prove that payment

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has been demanded of the maker of the note? (b) Against whom has the holder a right of recovery? (c) Against whom has an endorser who has been compelled to pay a dishonored note a right of recovery? (d) Under what circumstances is an endorser relieved from liability as such? (e) How may the liability of the endorser be preserved without protest for non-payment?

8. How should the assets of a co-partnership, and the assets of the respective individual members thereof, be applied when the several members owe individual debts in addition to the debts owing by the co-partnership?

9. Define general agent and special agent, respectively, and state the general rules as to liability of the principal for acts of each kind of agent.

10. State three ways by which an agency may be created and three ways by which it may be terminated.

11. Name three kinds of partnership recognized under the laws of Virginia; and state, briefly, their distinguishing characteristics.

12. Distinguish between partners in general business and partners in common of a tract of land.

13. What is a contract? Name the essential elements of a valid contract, and state who are legally qualified to make contracts.

14. Mention briefly the distinctive characteristics of a building and loan association.

15. When does the statute of limitations apply in Virginia on: (a) Promissory notes; (b) Bonds; (c) Written contracts; (d) Contracts under seal; (e) Open accounts; (f) Judgments; (g) Mutual accounts between merchant and merchant?

**EXAMINATION IN PRACTICAL ACCOUNTING**

Friday, November 18, 1910—9 A.M. to 12:30 P.M.

Questions 2 and 5 must be answered.

Questions 1, 3 and 4 optional with the applicant, who must answer two of them, but no more.

**QUESTION No. 1**

Smith, Hill and Davis engage in business under an agreement that Smith is to have a salary of 200.00; Hill, \$150.00; and Davis, \$100.00 per month, respectively; that the earnings are to be determined at any time at the request of any partner and the profits divided on a basis of the amount of business secured by each. They are in business nine months and find their accounts as follows:

Smith's business .....	\$4,500.00
Hill's business .....	2,800.00
Davis' business .....	3,000.00
Net profits .....	2,100.00

They then decide to rescind the salary agreement and divide the profits shown on a basis of amount of business secured individually, treating the salary drawn as an advance.

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You find errors during the nine months period, namely:

Office furniture, charged to operation .....	\$65.00
Accounts Receivable, Smith's business, uncollectible ...	210.00
Funds advanced by Davis, credited to his earning account	400.00

Items not yet paid nor entered into accounts:

Smith's salary .....	\$200.00
Hill's salary .....	150.00
Advertising .....	27.50
Clerk hire .....	130.00
Telephone .....	6.00
Rent .....	50.00
Stationery expense .....	15.00

Show the journal entries necessary to readjust the accounts; make a statement of the Profit and Loss account and each partner's personal account, showing all corrections.

QUESTION No. 2

The A. B. Corporation has a dispute with its agents C and D, regarding the amount due from the agency account, and asks you to state the account, which all agree to accept as a basis of settlement. On the books of C and D you find three accounts with the A. B. Corporation as follows:

OLD ACCOUNT

May 14, 1908.....	\$2,500.00	April 1, 1908.....	\$59,141.49
June 19, 1908.....	13,582.00	May 5, 1908.....	19,434.05
July 15, 1908.....	28,781.37	June 5, 1909.....	7.50
		Dec. 31, 1909.....	5,756.06

NEW ACCOUNT

April 6, 1909.....	\$4,976.50	May 3, 1909.....	\$10,000.00
April 17, 1909.....	3,219.86	May 18, 1909.....	17,000.00
April 19, 1909.....	7,111.65	May 18, 1909.....	184.66
April 24, 1909.....	6,293.21	June 10, 1909.....	10,000.00
April 29, 1909.....	4,915.91	June 20, 1909.....	6,500.00
May 17, 1909.....	3,219.73	June 20, 1909.....	318.44
May 20, 1909.....	4,071.11	July 10, 1909.....	700.00
June 8, 1909.....	1,895.19	July 10, 1909.....	43.71
June 12, 1909.....	3,434.26	Aug. 10, 1909.....	7,500.00
June 19, 1909.....	2,699.28	Sept. 20, 1909.....	10,000.00
June 24, 1909.....	4,115.22	Oct. 11, 1909.....	606.90
Aug. 1, 1909.....	2,573.82	Nov. 5, 1909.....	5,000.00
Aug. 5, 1909.....	3,089.74	Dec. 10, 1909.....	3,500.00
Sept. 15, 1909.....	1,576.74		
Sept. 18, 1909.....	2,429.05		
Sept. 29, 1909.....	5,472.82		
Nov. 1, 1909.....	2,338.20		
Nov. 3, 1909.....	2,222.18		
Dec. 17, 1909.....	2,927.54		



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Jan. 3, 1910.....	\$1,782.90	Jan. 15, 1910.....	\$10,000.00
Jan. 7, 1910.....	2,089.11	Jan. 25, 1910.....	2,500.00
Jan. 13, 1910.....	1,016.01	Jan. 31, 1910.....	80.44
Jan. 26, 1910.....	4,540.13	Feb. 1, 1910.....	5,000.00
Jan. 28, 1910.....	2,708.68	Feb. 3, 1910.....	123.22
Feb. 15, 1910.....	4,817.71	Feb. 15, 1910.....	4,000.00
Feb. 18, 1910.....	795.31	Feb. 15, 1910.....	97.88
Feb. 20, 1910.....	3,212.50	Mar. 31, 1910.....	4,000.00
Mar. 18, 1910.....	1,834.11	Mar. 31, 1910.....	20.55
Mar. 26, 1910.....	1,752.52	April 10, 1910.....	5,000.00
April 1, 1910.....	1,919.19	April 30, 1910.....	5,000.00
April 9, 1910.....	1,786.54	May 20, 1910.....	7,500.00
April 15, 1910.....	2,447.83	May 20, 1910.....	36.45
April 24, 1910.....	3,584.32	June 10, 1910.....	5,000.00
April 24, 1910.....	138.32	June 30, 1910.....	4,000.00
May 15, 1910.....	3,497.86	June 30, 1910.....	164.06
May 20, 1910.....	3,690.43	July 1, 1910.....	7,500.00
June 3, 1910.....	1,477.66	July 24, 1910.....	5,000.00
June 9, 1910.....	1,548.29	Aug. 1, 1910.....	5,000.00
June 15, 1910.....	2,180.75	Aug. 20, 1910.....	4,500.00
June 30, 1910.....	3,844.22	Aug. 31, 1910.....	102.92
July 16, 1910.....	4,571.59	Sept. 20, 1910.....	8,000.00
July 23, 1910.....	2,085.79	Oct. 10, 1910.....	2,000.00
July 28, 1910.....	1,787.22	Oct. 10, 1910.....	5,000.00
July 29, 1910.....	3,970.87	Oct. 10, 1910.....	239.81
Aug. 1, 1910.....	2,226.69	Nov. 3, 1910.....	6,000.00
Aug. 7, 1910.....	1,001.04	Nov. 3, 1910.....	172.72
Aug. 14, 1910.....	3,112.05	Nov. 17, 1910.....	5,000.00
Aug. 15, 1910.....	2,026.69	Nov. 30, 1910.....	27.45
Aug. 22, 1910.....	1,138.74		
Sept. 5, 1910.....	1,173.08		
Sept. 7, 1910.....	2,003.77		
Sept. 17, 1910.....	1,933.39		
Sept. 21, 1910.....	1,552.70		
Sept. 23, 1910.....	1,273.12		
Oct. 9, 1910.....	1,284.72		
Oct. 15, 1910.....	2,965.19		
Oct. 25, 1910.....	2,829.99		
Nov. 1, 1910.....	3,149.81		
Nov. 7, 1910.....	3,288.62		
Nov. 16, 1910.....	2,091.50		
Nov. 19, 1910.....	1,082.16		
Nov. 22, 1910.....	1,279.80		

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INTEREST ACCOUNT					
April	1909	\$185.65	Jan.	1910	\$376.32
April	1909	82.90	Jan.	1910	324.58
May	1909	1,733.68	Feb.	1910	100.00
June	1909	642.25	Feb.	1910	286.35
July	1909	527.28	Mar.	1910	1,213.94
July	1909	1,455.13	April	1910	203.23
July	1909	1,019.71	April	1910	224.00
Aug.	1909	89.56	May	1910	1,000.00
Aug.	1909	199.61	May	1910	436.25
Sept.	1909	1,647.29	June	1910	339.31
Oct.	1909	193.21	July	1910	467.22
Oct.	1909	317.77	July	1910	224.67
Oct.	1909	103.82	July	1910	245.93
Nov.	1909	1,264.17	Aug.	1910	213.33
Dec.	1909	686.68	Sept.	1910	1,183.59
Jan.	1910	228.92	Oct.	1910	221.63
Jan.	1910	814.30	Nov.	1910	377.31

Prepare a comprehensive monthly statement of the account, combining the three separate ledger accounts, adding interest (computed on monthly balances) for any year or parts of a year for the period April 1, 1908, to Nov. 30, 1910.

QUESTION No. 3

The Boulevard Land Corporation is organized in your home city for the purpose of acquiring 100 acres of land, having same laid off into suitable lots for residential property.

The Company is capitalized at \$25,000.00, which stock is taken in equal amounts and paid for by 10 stockholders. The property is purchased for \$35,000.00; a first mortgage being accepted for \$15,000.00 and the balance \$20,000.00 paid in cash, the remaining \$5,000.00 derived from sale of capital stock being used to advertise and pay expenses of putting the property on the market.

There is a release clause in the mortgage providing that all owners of lots on the boulevard can obtain clear title by paying \$25.00 per front foot to the mortgagee, all other lots being released at rate of \$15.00 per front foot.

The stockholders decided to reserve 10 lots 50 feet in width, facing the boulevard for their own use; each stockholder drawing a lot number from a hat to ascertain which one of the ten should belong to him.

A and B are engaged in the real estate business and are also stockholders in this corporation, and by vote of the stockholders are appointed the general sales agents for the Boulevard Land Corporation.

In making an audit of the accounts you find that the company has paid \$9,500.00 in releases; \$7,000.00 to release lots purchased by outsiders and \$2,500.00 to pay for the release of free lots drawn by A and B as stockholders. Would you have any comment to make regarding this or any adjustments to make in the accounts? Explain in detail.

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QUESTION No. 4

On account of the inability to make collections or to borrow funds, Johnson, Jones and Jacobs are forced into bankruptcy. Their statement to the receiver is as follows:

ASSETS		
Property, consisting of factory and land .....	\$37,500.00	
Machinery .....	12,800.00	
Office furniture and fixtures .....	1,250.00	
Cash on hand and in bank .....	900.00	
Stock on hand, raw goods .....	5,000.00	
Stock on hand, finished for sale .....	10,000.00	
Accounts receivable .....	20,000.00	\$87,450.00
LIABILITIES		
Mortgage on property and plant .....	\$40,000.00	
Bills payable .....	25,000.00	
Accounts payable .....	15,000.00	
Surplus .....	7,450.00	\$87,450.00

What accounts would you transfer to the receiver?

Open a proper set of books for the receiver covering this business.

QUESTION No. 5

B dies March 23, 1905, leaving an estate consisting of the following property in charge of his executors, X, Y and Z:

Cash in bank .....	\$10,000.00
Accounts receivable from:	
1.....	\$2,000.00
2.....	3,000.00
3.....	1,000.00
4.....	3,000.00
5.....	1,000.00
6.....	4,000.00
7.....	2,000.00
8.....	3,000.00
9.....	4,000.00
10.....	1,000.00
	<u>\$24,000.00</u>
Stocks and bonds:	
1. 100 shares Union Bank (par value, \$100.00) .....	\$12,000.00
2. 40 shares Traders Bank (par value, \$100.00) .....	12,000.00
3. \$1,000.00 C. & O. 4's—J. & J.....	1,050.00
4. \$5,000.00 P. R. R. 6's—M. & S.....	4,500.00
5. \$10,000.00 N. Y. C. 3½'s—J. & J.....	10,450.00
	<u>\$40,000.00</u>

and three parcels of unimproved real estate.

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Three of his heirs are also indebted to him for money loaned :

C.....	\$5,000.00
D.....	6,000.00
E.....	7,000.00
	<hr/>
	\$18,000.00
	<hr/>

The will directs the executors to dispose of the real estate, convert the other assets and distribute the funds, to wit :

Widow.....	one-half
Children {	} one-sixth each
C.....	
D.....	
E.....	

Up to April 30, 1906, the executors collect all the accounts receivable with the exception of items No. 3, No. 6 and No. 10, on which they realized only \$4,500.00, the balance being uncollectible.

Bonds No. 3 and No. 5 matured January 1, 1906, and bond No. 4 matured March 1, 1906, and were redeemed at par. Stock No. 2 is sold at \$325.00 and stock No. 1 at \$125.00, both sales taking place on April 15, 1905.

The real estate is sold for cash, \$5,000.00; and mortgages \$10,000.00.

Interest has been received on bank balances, \$300.00; accounts receivable, \$50.00; and on each of the bonds at the regular interest periods in full :

The executors pay decedent's debts and funeral expenses, \$1,000.00. Counsel fees, \$500.00; safe deposit box rent, \$10.00; and office expenses incident to collection of income, \$500.00. The executors waive their claim to commissions, but ask for an allowance to cover expenses incurred by them of \$75.00 each.

State the executors' first and final account and prepare a statement for the purpose of guiding the court in directing a distribution to be made to the heirs.

**EXAMINATION IN PRACTICAL ACCOUNTING**

Friday, November 18, 1910—1:30 P.M. to 5:30 P.M.

**QUESTION No. 6**

The Gunsaulus Corporation, organized under a general charter of the State of Virginia, operates coal mines, saw mills, a private railroad and have their own timber holdings.

All the accounts are kept in one mammoth ledger, with usual books of original entry, at the general office in Norfolk. They engage the services of yourself to audit the books for the past year (ending June 30,

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1909). The accounts in the ledger have been forwarded back and forth to economize stationery and the trial balance is as follows:

ACCOUNT	DEBIT	CREDIT
Plant and Equipment—Mine A.....	\$31,955.26	
New Plant—Mine 7.....	62,173.27	
Stumpage—cut for saw mill.....	7,534.26	
Capital Stock .....		\$581,500.00
Betterment to Mines 3 and 4.....	2,783.42	
Local purchase logs.....	51.66	
Saw mill repairs.....	1,360.31	
Cash .....	7,436.05	
Development—Mine 1 .....	3,822.37	
Timber and land .....	240,305.26	
Planing mill repairs .....	341.43	
Accounts Receivable .....	76,421.91	
Mine engineering tools .....	225.00	
Petty Cash—mines .....	750.00	
Lumber—outside purchase .....	79.20	
Lighterage on Lumber .....	57.95	
Mine administration, salaries and supplies ...	2,195.22	
Petty expenses at mines .....	1,649.28	
Tenant houses at mines .....	2,117.22	
Lumber, logs, etc., on hand .....	50,853.60	
Saw mill payroll .....	4,141.41	
Planing mill payroll .....	2,421.95	
Commissary merchandise .....	8,642.58	
Feed and labor, mines stables .....	925.75	
Electric repairs at mines .....	467.97	
Commissary payroll .....	726.65	
Logging payroll .....	200.00	
Unearned Insurance Premiums .....	3,918.49	
Mine cars .....	6,139.78	
Lath mill payroll .....	249.65	
Electric plant—mines .....	3,190.00	
Interest on loans covering mine plant construction .....	7,226.73	
Mines warehouse stock .....	1,743.22	
Lath mill repairs .....	7.27	
Railroad equipment .....	74,710.38	
Railroad payroll and expense .....	2,241.86	
Camp equipment .....	22,192.34	
Camp payroll .....	1,549.75	
Yard and shed repairs .....	112.10	
Logging railroad trackage .....	47,769.13	
Salaries .....	1,021.67	
Unclaimed miners' wages .....		246.17
Coal sales .....		57,280.78
Building material on hand at mines .....	810.75	

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ACCOUNT	DEBIT	CREDIT
Interest on funds to develop No. 1 mine.....	\$240.00	
Mine office furniture and fixtures .....	1,459.17	
Mine officers' house furnishing .....	513.29	
Mine railway trackage and switches .....	3,916.82	
Telephone Line—mill to woods .....	436.56	
Freight on logs to saw mill .....	1,614.40	
Camp boarding house equipment .....	1,500.00	
Interest and discount .....	422.09	
Mine store expense and labor .....	2,472.83	
Mine store freight .....	472.98	
Saw mill machine shop .....	2,328.53	
Outside investments .....	1,949.90	
Advanced to new corporation .....	1,373.27	
Mill plant .....	324,982.92	
Sales of lumber .....		\$28,033.11
Sales of lath and shingles .....		2,392.45
Insurance—Mill .....	85.30	
Operation Chicago office .....	1,000.00	
Allowances and discount—Coal shipments ...	637.40	
Repairs and expense, mines stables .....	124.22	
Mine office, salaries and supplies .....	1,562.23	
Mine engineering, salaries and supplies .....	625.00	
Traveling expenses, mines manager .....	221.67	
Interest—current loans at mines .....	125.00	
General expense .....	853.80	
Discount on lumber sold .....	1,931.60	
Bills Payable .....		172,667.50
Accounts Payable, audited .....		24,287.03
Special loan .....		35,000.00
Taxes—mines .....	178.53	
Insurance—mines .....	1,271.11	
Legal Expense—mines .....	785.00	
Royalty on coal mined .....	4,989.77	
Mining labor .....	29,871.23	
Surplus .....		195,764.45
Sales of wood .....		186.00
Rent of dwelling and miscellaneous income		278.00
Yardage and tunnel extension at mines .....	2,743.22	
Delivery of coal to tippie .....	3,571.28	
Maintenance of Way—mines .....	710.11	
Maintenance of Air—mines .....	739.10	
Props, ties and caps .....	497.17	
Mine foreman, salary .....	800.00	
Maintenance of mine cars .....	209.38	
Mine machinists' and engineers' wages .....	1,378.78	
Smithing—mines .....	672.10	
Fuel—mines power house .....	297.51	

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ACCOUNT	DEBIT	CREDIT
Removal of slate .....	\$551.98	
Deadwork at mines .....	47.21	
Electric supplies at mines .....	2,488.55	
Insurance during construction of mine plant.	937.97	
Norfolk & Western Ry. claims at mines ....	71.59	
Repairs to miners' houses .....	171.19	
Legal expense—obtaining right of way to mines .....	342.68	
Live stock at mines .....	3,850.00	
Taxes during construction of mines plant ...	313.71	
Mine commissary merchandise .....	8,427.60	
Rental from miners' houses .....		\$1,572.27
Cartage and sale of coal to tenants .....		70.09
	<u>\$1,099,277.85</u>	<u>\$1,099,277.85</u>

They have agreed to a plan whereby the coal mine operation will be taken over by a new corporation and therefore ask that you separate the lumber and coal accounts, make up a separate set of statements to cover each business (balance sheet, and statement of operation, with supporting schedules showing the profit and loss account and surplus account in detail)—the capital stock to stand as part of the lumber accounts.

You find as follows:

That at the beginning of the fiscal year the capital stock issued and paid for amounted to \$575,000.00, John Johnson and Henry Mears, having performed their duties in a way acceptable to the officials, were allowed to purchase for cash 40 shares and 20 shares each of the capital stock respectively, at \$125.00 per share (par \$100.00), and that the \$25.00 premium per share had been credited to Surplus Account.

Bills Receivable account was balanced and closed but in going through the accounts you found Bills Receivable, for lumber accounts, renewed from time to time amounting to \$2,791.17, which certain customers had not yet paid.

Mine No. 1 is in a state of development and has not been as yet operated.

In Accounts Receivable \$15,180.92 cover coal shipments.

In Bills Payable \$50,725.00 cover mine investments.

Insurance premiums not matured \$726.10 on mine policies.

Taxes paid in advance \$78.53.

Of the surplus, before closing the accounts, \$98,958.44 arises from mine operation prior to year ending June 30, 1909.

\$12,790.79 of Accounts Payable Audited cover mine bills.

Close their books, showing necessary journal entries to adjust accounts.

The Flat Top Fuel Corporation secures a charter and capitalizes with an issue of \$250,000.00 preferred stock and \$200,000.00 common stock. The preferred stock is subscribed as follows:

The Gunsaulus Corporation ..... \$150,000.00

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(They to transfer all assets and liabilities, as shown by your statement covering the mines property, to the Flat Top Fuel Corporation, any equity to apply as a payment on the subscription, balance to be paid on call.)

A. Murphy ..... \$50,000.00  
 (\$25,000.00 paid in cash, balance on call.)  
 Andrew White ..... \$50,000.00  
 (\$25,000.00 paid in cash, balance on call.)

(\$25,000.00 paid in cash, balance on call.)

Show proper entries to make the transfer in the books of the Gunsaulus Corporation and a balance sheet after doing so; also, entries to open books of Flat Top Fuel Corporation and balance sheet after doing so.

The General Manufacturing Co., Inc., capitalized at \$30,000.00 of which the Gunsaulus Corporation owns 50 per cent, the Rock Lumber Company 25 per cent and the Severn River Lumber Company 25 per cent, agree to take over the business of each of the three concerns named for the purpose of increasing the total output and adding new products. It being agreed that any difference in holdings appearing in the consolidated Balance Sheet is to be adjusted later.

The Gunsaulus Corporation agrees to dispose of its plant for \$250,000.00; reserve its timber holdings and \$8,000.00 of Accounts Receivable not considered collectible; also assume all liabilities excepting such Accounts Payable Audited as remain unpaid. The other companies submit the following balance sheets:

ROCK LUMBER COMPANY

ACCOUNT	DEBIT	CREDIT
Cash on hand and in Bank .....	\$6,410.81	
Bills Receivable .....	2,131.55	
Bills Payable .....		\$77,191.94
Lumber, Logs, etc. ....	52,176.59	
Unexpired Insurance Premiums .....	1,317.58	
Mill Supplies and Extras .....	819.26	
Teams .....	2,859.65	
Standing Timber and Lands .....	300,000.00	
Accounts Payable .....		15,197.94
Surplus .....		401,321.76
Mill Plant .....	60,500.00	
Accounts Receivable .....	67,496.20	
	\$493,711.64	\$493,711.64



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SEVERN RIVER LUMBER COMPANY

ACCOUNT	DEBIT	CREDIT
Cash .....	\$438.72	
Bills Receivable .....	6,008.91	
Lumber, Logs, etc. ....	97,303.43	
Unexpired Insurance Premiums .....	417.93	
Mill Supplies and extras .....	742.59	
Teams .....	62.50	
Bills Payable .....		\$39,604.38
Standing timber and lands .....	42,811.83	
Tugboat .....	2,019.39	
Outside Investments .....	6,300.00	
Mill Plant .....	30,000.00	
Accounts Payable .....		7,912.84
Surplus .....		172,093.42
Accounts Receivable .....	33,505.34	
	\$219,610.64	\$219,610.64

None of the capital stock of the new corporation has been paid for. From the figures you have at your disposal, make a balance sheet showing the interests of each company separately and items of the same class in comparison with each other.

Draft a balance sheet for the Gunsaulus Corporation to cover its present condition.

COMMENTS

We are glad to note that the State of Virginia has been added to the list of those states that have enacted a C. P. A. law. For the first time we have before us the examination papers set by the State Board of Accountancy of the state mentioned above, and it is pleasing to those interested in the progress of the Accounting profession, to see that the members of the Board are endeavoring to keep abreast with the general movement of the different state boards.

It is true that it is difficult for the first time to prepare papers with such care that there should not be any inconsistencies. As a whole, however, the papers are commendable. The questions in Auditing, Theory of Accounts and Commercial Law, do not contain any new matter. On the other hand, however, it is an exhaustive test of the candidate's ability to analyze things and draw proper conclusions. The paper on Practical Accounting is rather interesting. It has some features that are rather new, and what is more important, it has the indications of the earnest endeavors of the State Board not to spare any time, but to do its utmost to make the examination a success.