ACCOUNTANTS' REPORTS

W. H. BELL

THE RONALD PRESS COMPANY
NEW YORK

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By

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New York

THE RONALD PRESS COMPANY

1921

To Charles E. Morris, C.P.A.

This work is dedicated in grateful appreciation of his wise counsel.

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PREFACE

This book has been written in the interest of the advancement of accounting practice with respect to one of its most important features, which has not heretofore been dwelt upon at length in the literature of accountancy, namely, the preparation of reports. The volume is addressed to public and private accountants and students of accountancy with the hope that it may be of service in raising the standard of practice in respect of accounting technique in reports and the practical value of the reports to the persons for whom they are prepared.

The work of the accountant, both professional and private, is summed up in his reports. It is also judged by his reports. In deciding to undertake this work, I was influenced to no small degree by the words of a prominent business man to the effect that the work of professional accountants which had come to his attention, as evidenced by their reports, was distinctly disappointing. In a large majority of cases the client's impression of the quality of professional accounting work is derived entirely from the accountant's report. The field work done by the accountant or his representative may be ever so good, but it will avail little if the report is not lucid and illuminating as well as accurate.

This also applies to a large extent to the reports prepared by private accountants for the use of executives, boards of directors, or stockholders. Certain standards have been and are being set by professional accountants, as the

leaders of thought in that direction, for the presentation of financial statements and their interpretation; and business executives and governing bodies have a right to expect that the persons charged with the administration of their accounting matters shall adopt the best practice in reporting to them upon the financial condition and results of operation of the business, and shall recognize and point out significant facts in connection with such statements which may be utilized in correcting faults and formulating policies of business administration.

There should be no essential difference between the practices of public and private accountants with respect to such matters as nomenclature, classification, and arrangement in the preparation of accounting statements. The only difference is that the public accountant draws up his statements after formally verifying the accuracy of the accounts, and the private accountant draws up his statements from accounts assumed to be accurate.

In view of the foregoing, it is thought that this work, which is designed to exhibit the best practice of professional accountants in the preparation of their reports, as gleaned from the professional experience of the author, will be found equally beneficial in public and private practice.

WILLIAM H. BELL.

New York,

August 15, 1921.

CHAPTER I

INTRODUCTORY

GROWING IMPORTANCE OF REPORTS

With the growth of modern business enterprises greater need has arisen for developing adequate means by which to keep those responsible for the operation and direction of the business informed as to its past accomplishments and its present status.

Because of this fact, business executives are recognizing more keenly than ever before the essential part which properly prepared reports play today in the conduct of business. They are realizing that the present demands the use of greater care and skill in the preparation of reports. This is especially true in the case of reports rendered by accountants, many of whom are apparently lacking in a proper appreciation of the necessity of preparing reports so as to be easily understood by those for whom they are intended. For it must be remembered that a poorly constructed report, though seemingly harmless, is frequently a most dangerous instrument in the hands of those who use it.

Although existing works on accounting and auditing contain much discussion relating to the theory and practice involved in financial statements, very little has been written on the preparation of accountants' reports from the standpoint of uniform practice with respect to form, arrangement, and terminology, as well as of content. It is with a desire to assist in improving the existing practice that this treatise has been written.

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MORE LUCID FINANCIAL STATEMENTS DESIRED

Not infrequently, accountants' reports are rendered almost valueless through the inability of accountants to look at things through the eyes of their clients and principals. It should be the aim of the accountant to avoid highly technical terms and forms as much as possible. The persons to whom reports are addressed are not usually technical accountants; but whether they are or are not, the reports should be illuminative to anyone having occasion to read them. Of course, the accountant cannot hope to express himself so that there is absolutely no chance of his reports being misunderstood, but there is a wide difference between such simple reports and the confusing, hyper-technical statements circulated by some companies in their printed reports.

It should be borne in mind that as far as the professional accountant is concerned he has a dual responsibility - to his client and to the public; and the latter responsibility is not discharged by a refusal to countenance evident irregularities, but extends also to insistence upon lucidity in his statements. The titles of accounts as they appear on the books should be ignored if they do not clearly convey the desired meaning. Such titles are often purposely condensed and even, at times, deliberately designed to mislead.

NEED OF UNIFORM PROCEDURE

It is also important that accountants, both professional and private, should endeavor so far as possible to develop a uniform procedure for presenting the financial facts of the business

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so that reports for different periods may always be comparable, and so that bankers, credit-men and others may have no difficulty in contrasting financial statements rendered by different enterprises. It is to be remembered that the duties of the two classes of accountants differ only in this: That the public accountant prepares his statements after disinterested examination and proof or disproof of the accounts, while the private accountant draws up his statements from accounts assumed to be correct. They should, therefore, follow the same procedure in preparing the statements.

While one of the crying needs in accountancy is the greater uniformity of practice as between the members of the profession, care should be taken that the general accounting work within an organization is not reduced to a purely routine basis, when the substance is made to fit the form rather than the reverse. Perhaps the greatest cause for criticism of reports is that they are often stereotyped, in both substance and form. In certain cases this fault is imaginary, but in others it is very real. It may be due to plain incompetency or to false notions of standardization, which almost invariably result in a narrowed viewpoint and restricted originality. Of course, there are very many forms and expressions that can hardly be improved and nothing is therefore gained by experimentation with substitutes. The evil lies in the lack of discrimination which results in blindly applying such forms and expressions under conditions where they are inappropriate or unnecessary. They are not

hackneyed if they fit the case.

DESIGNATION OF STATEMENTS

A word is necessary here concerning the designations given to financial statements. The practice of prominent accounting organizations differs with respect to the use of these designations. It is entirely a matter of personal preference whether the principal statements be termed "exhibits" or "schedules," or whether they be designated by letter or number. In this work, the term "exhibit," with a designating letter, is applied to the principal statements, that is, those which are, at least to a large degree, independent of others; and the term "schedule," with a designating number, is applied to subordinate statements. Sometimes it is necessary to render a more detailed statement that is itself subordinate to a "schedule." For lack of a more suitable term, such tabulations are here called "statements," and they are numbered. Whatever scheme is adopted, it may have to be modified when reporting upon such matters as trust estates, when court procedure calls for other forms and designations.

MECHANICAL FEATURES AND NECESSITY OF PRECISION

In the preparation of financial statements, certain mechanical features should not be overlooked, as they add much to the general lucidity and intelligibility of the statements. These include such matters as the typing, underscoring, and indenting of individual items so as to indicate the relationship more clearly. Neither should the accountant be too niggardly

with his comparisons. The presentation of figures for corresponding periods of other years greatly enhances the value of the statements.

A prime essential to success in accountancy, as in other professions and arts, is precision. It is perhaps unnecessary to dwell upon the necessity for accuracy of figures, but precision of expression is no less important. In this connection, attention should be given to the misuse of such expressions as "paid," "collected," "unearned," "paid in advance," and "accrued." In the use of such expressions the standpoint of the business being reported upon should always govern. Rent is <u>paid</u> in advance by the lessee, and <u>collected</u> in advance by the lessor; insurance premiums are <u>unearned</u> from the standpoint of the insurance company. The only possible cure for the tendency to lack of clarity in reports is, as stated above, habitually seeing the reports with the eye of the client.

AUDIT REPORT DEFINED

The reports specifically discussed in this book are, naturally, those rendered by professional accountants and auditors to their clients. The professional accountants have formulated certain standards with respect to the form and arrangement of financial statements, which are applicable equally to public and private practice. It is believed that through the study of such reports as are here discussed ample illustrations will be afforded of the most generally accepted practice among accountants whether engaged in public or in private work.

It should be noted, of course, that there are certain matters which have to be considered by the public accountant in preparing a report for a client with which the accountant engaged in private work need not concern himself. For example, there is still some confusion among accountants in this country as to what is meant by the term "report" as applied to professional accountancy practice. It is customary for some to describe what they render to clients by some such term as "Report and Accounts," or "Report and Statements." They seem to regard as the "report" the part appearing over their signature, consisting of a presentation and comment or descriptive matter -- possibly also a certificate but not the statements. This practice originated in Great Britain, where it is customary for the professional auditor to certify to statements submitted as those of the client, but that custom does not prevail to any extent in this country.

No accountant would seriously contend that the financial statements submitted by him as part of the results of his work, but not specifically over his signature, are in any sense extraneous to his report. These statements represent merely a convenient method of exhibiting the financial condition or operations of a business. The information they contain might be conveyed as intelligibly - possibly more intelligibly in many cases - in text form, in which case there appears to be absolutely no doubt that it would always be held to constitute a part of his "report." To illustrate, the financial condition of a business might be stated as follows:

> "The cash balance at December 31, 1920, was $25,000.00; the accounts receivable aggregated $150,000.00; and the inventories were valued at $550,000.00, making total current assets of $725,000.00 - compared with current liabilities, consisting of accounts payable and accrued expenses, of only $25,000.00. The capital assets, consisting of land, buildings, machinery, and fixtures (less reserves for depreciation), amounted to $265,000.00. There were deferred charges to operations (interest and insurance paid in advance) amounting to $10,000.00. The net worth of the business was $750,000.00, represented by capital stock of $500,000.00 and surplus of $250,000.00."

In this book the word "report" when referring to a professional audit is intended to comprehend everything formally submitted to the client.

CHARACTER AND SCOPE OF REPORT

A matter of prime importance for the accountant is the necessity for determining clearly in advance the character, scope, and purpose of the report which is desired. This necessity of careful analysis of the requirements of a situation finds, of course, most striking illustration in the work of a public accountant for a client. The composition of the report as to statements and statistical data should be determined with reasonable definiteness before the work has proceeded far. In this connection, as much consideration as possible should be given to the client's interests in the matter of expense, and statements or other matter should not be prepared unnecessarily.

For example, unless a permanent and complete record of the details of the accounts receivable and payable is desired for the report, the accountant may check the client's trial bal-

ances, and thus obviate the necessity for preparing schedules of his own or amplifying such schedules as may be furnished by the client. Similarly, if the details of securities owned, notes receivable, etc., are not to be included in the report, the public accountant may be able to utilize as working papers copies of the client's schedules, which may frequently be obtained. So also in the verification of property accounts and others of like nature, if details of changes are not to be shown in the report, small items may usually be assumed to be correct without investigation and the larger ones need not be quite so specifically described in the working papers as would otherwise be the case.

In rare cases the contents of a public accountant's report as to statements and text matter is prescribed by the client. Usually, however, it devolves upon the public accountant to anticipate the desires of his client in this respect, furnishing all data which, in his opinion, the client will require or appreciate.

The accountant may have been engaged to examine specific accounts or the records of certain specific transactions, in which case a simple letter will usually prove adequate; to audit the cash receipts and disbursements for a certain period, when a statement of cash transactions will usually be required; to audit the asset and the liability accounts as of a certain date (usually termed a balance sheet audit), when a balance sheet will almost always be rendered; or to make a complete audit for a certain period, when a full report is re-

quired - usually consisting of a balance sheet at the end of the period and a statement of income and profit and loss for the period, with or without comments. On each of these a formal certificate may also be called for.

PARTS OF REPORT

Still another matter which specifically affects the accountant in public practice preparing reports for clients is that of the component parts of the report and the order in which they should appear. The private accountant usually submits to his principals only financial statements. If he has any comments to make he renders them orally. The professional accountant, on the other hand, upon concluding his audit submits to his client a formal report in writing, in which he includes, in addition to the statements, comments on the several items of the statements as suggested above, or on other more general matters, such as the system of accounting used. These are a most important part of his report, and should be prepared with the greatest care.

In addition to the financial statements and comments an audit report contains two other features which are not used in the reports rendered by the private accountant, namely, the certificate and the presentation. The certificate of audit should state briefly but specifically the extent of its application. Special care should be taken when it is necessary to make qualifications. In the presentation, which forms the introductory part of the report, the client should be formally advised of what has been done and the contents of the report.

The order in which the several parts of the audit report are considered in this book is the order in which they are completed by the accountant, namely, statements, comments, certificate, and presentation. In the report itself the parts are arranged differently, the following being probably the best order in the majority of cases: presentation, comments, certificate (assuming it is separate and not appended to a statement), and statements.

CHAPTER II

BALANCE SHEETS

The work of the accountant, whether private or professional, has two more or less distinct aspects. The first is the keeping or investigation of accounts - the process of recording transactions from day to day or of verifying the records periodically. The second is concerned with the summarization, in a form readily intelligible, of the daily records or of the results of an investigation of the records - the preparation of financial statements.

The vast expansion and increased complexity of the business unit has demanded of the accountant improved and simplified methods of routine accounting. But it has also compelled him to give more study to the method of formulating financial statements. The men at the helm of great aggregations of capital cannot maintain personal contact with the organizations in all their manifold ramifications. They are, therefore, in special need of a compass that will enable them to steer a proper course. This is provided by financial statements epitomizing the condition and operation of their companies. Too much attention, therefore, cannot be given to the proper formulation of financial reports and the general effectiveness and lucidity with which the vital facts concerning an industry are presented to those in control.

The purpose of the first part of the present work is to set forth the most approved methods of drawing up the statements, beginning with the balance sheet. In later chapters con-

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sideration is given to questions in which the public accountant is particularly interested, the general preparation and arrangement of an audit report.

It seems to be quite customary among American accountants to use the term "General Balance Sheet" as a formal title to most statements of assets and liabilities, but in conversation the same accountants drop the prefix "general." In a search of accounting literature regarding the origin and evolution of the balance sheet, the only instance of the use of the word "general" in this connection which has been discovered by the author is in relation to the "double account form of balance sheet," which is prescribed by law for certain English companies. This consists of two sections: the first, "Receipts and Expenditures on Capital Account"; the second, the "General Balance Sheet," to which is brought down, as an asset or a liability, the balance from the first section.

As a practical matter, the word "general" appears to be redundant. Virtually all balance sheets are "general," in the sense that they exhibit the condition of the business at a given time *in toto*. The term balance sheet is commonly understood as having that meaning, and in the comparatively rare cases when it is applied to a statement of the condition of a branch or department, the balancing account of which is with the main office, it is used for lack of a better term. Rarely, if ever, is a distinction made between "general balance sheets" and "balance sheets" in respect to the degree of detail presented.

There are two general practices regarding the arrangement of items in the preparation of balance sheets, namely:

1. The arrangement of assets as nearly as practicable in the order of their availability, and liabilities in the order in which they are payable, with the accounts representing net worth (capital, or capital stock and surplus) last.

2. Beginning with the permanent or fixed assets, opposite which are shown the sources of capital (usually capital stock and funded debt) the order of the other assets and liabilities being very much as in the first arrangement, with the surplus the last item among the liabilities.

Each of these methods has its advantages, but it is perhaps safe to assert that in the majority of cases the former is preferable. It is almost always used in the case of financial institutions. If the balance sheet is primarily intended to be submitted to a prospective lender, prominence should be given to the comparison of current assets with current liabilities by placing them at the top. If the balance sheet is intended for a prospective purchaser, the net worth of the business may well be stated in one amount, thereby conforming to the first arrangement. In the opinion of many accountants, the growing practice of issuing capital stock without par value furnishes an additional reason for showing in the balance sheet the total of the capital stock and surplus.

It is argued by some accountants that the second method is preferable for the reason that it is more logical to present first the capital assets, with which the business is carried on, in juxtaposition to the sources of capital. The only objection to the method is that the surplus of a corpora-

tion, which is almost invariably stated last, is very often to a large extent also invested in the capital assets. However, the method is well established in practice, especially in drawing up balance sheets of railroad and public utility corporations.

The first method is exemplified in summary form as follows, taking as an example the balance sheet of a manufacturing corporation:

Assets	Liabilities
Current Assets	Current Liabilities
Investments	Funded Debt
Sinking Fund	Deferred Credits
Property	Reserves
Good-Will, Patents, Trade-Marks, etc.	Capital Stock
Deferred Charges	Surplus

The alternative arrangement most generally employed is shown as follows:

Assets	Liabilities
Property	Capital Stock
Good-Will, Patents, Trade-Marks, etc.	Funded Debt
Sinking Fund	Current Liabilities
Investment Securities	Deferred Credits
Current Assets	Reserves
Deferred Charges	Surplus

Following is a condensation of the form of balance sheet proposed by the Federal Reserve Board for merchants and manufacturers:

ASSETS

Cash

Notes and Accounts Receivable
(including notes receivable discounted or sold with indorsement or guaranty; and showing separately those past due)
Less provisions for Bad Debts, Discounts, Freights, Allowances, etc.

Inventories:
Raw Material
Goods in Process
Uncompleted Contracts
Less Collections on Account
Finished Goods

Other Quick Assets:
(fully described)

Total Quick Assets:
(excluding all investments)

Securities Readily Marketable and Salable Without Impairing the Business

Notes Given by Officers, Stockholders, or Employees

Accounts Due from Officers, Stockholders, or Employees

Total Current Assets

Fixed Assets:
Land Used for Plant
Buildings Used for Plant
Machinery
Tools and Plant Equipment
Patterns and Drawings
Office Furniture and Fixtures
Other Fixed Assets, if any
(fully described)

Total
Less Reserves for Depreciation

Total Fixed Assets

Deferred Charges:
  Prepaid Expenses, Interest, Insurance,
    Taxes, etc.

Other Assets:
  (fully described)

TOTAL ASSETS

LIABILITIES

Bills, Notes, and Accounts Payable:
  Unsecured Bills and Notes:
    On Account of Purchases of Merchandise, Plant Assets, etc.
    On Account of Loans
  Unsecured Accounts:
    For Purchases
    Due to Stockholders, Officers, or Employees
  Secured Liabilities:
    Notes Receivable Discounted or Sold with
      Indorsement or Guaranty (per contra)
    Customers' Accounts Discounted or Assigned
    Obligations Secured by Liens or Inventories
    Obligations Secured by Securities Deposited as Collateral

Accrued Liabilities (interest, taxes, wages, etc.)

Other Current Liabilities:
  (fully described)

Total Current Liabilities

Fixed Liabilities:
  Mortgage on Plant (due date)
  Mortgage on Other Real Estate (due date)
  Chattel Mortgage on Machinery or Equipment (due date)
  Bonded Debt (due date)
  Other Fixed Liabilities:
    (fully described)

Total Fixed Liabilities

TOTAL LIABILITIES

NET WORTH:
  If a Corporation:
    Preferred Stock (less stock in Treasury)
    Common Stock (less stock in Treasury)
    Surplus and Undivided Profits

      Total

    Less:
      Book Value of Good-Will
      Deficit

      Total

  If an Individual or Partnership:
    Capital
    Undistributed Profits or Deficit

      Total

There is considerable variance in the practices of accountants with respect to the captions in balance sheets - as in every other phase of accounting practice.

The terms Liquid Assets and Quick Assets are frequently used synonymously with Current Assets, although it appears that Quick Assets should be more restricted, as in the foregoing illustration. The author prefers the term Current Assets, to include cash and other items that will normally be converted into cash, such as receivables, inventories, and temporary investments in securities (at market value).

The terms Fixed Assets and Capital Assets are used interchangeably, to denote plant assets, investments in subsidiary companies, and patents, good-will, trade-marks, franchises, etc.

Most accountants usually treat inventories as Current Assets, but some treat them as Working Assets or Working and

Trading Assets. This latter class is often also made to include expenditures applicable to future operations (insurance, taxes, interest, etc.) which are treated by most accountants as Deferred Charges or Deferred Debit Items. Expense funds and inventories of supplies (as distinguished from materials) are variously classed as Current Assets, Working Assets, and Deferred Charges.

Some accountants are so concerned over the distinction between "liabilities" and "accountabilities" that they feel impelled to use the heading "Liabilities and Capital." The use of the word "liabilities," as comprehending the proprietorship accounts, has been sanctioned by custom. Furthermore, there is some question as to whether the capital originally contributed by the proprietors, together with any accretions, may not be regarded, in a broad sense, as a liability of the business. Let those who are disposed to indulge in hair-splitting arguments on the subject do so; the author is not convinced of the desirability of departing from well established practice in this respect.

Custom has also sanctioned the placing of a deficit among the assets. There seems to be no objection to doing so in most cases, as it is certainly not going to be overlooked, and the figure of total assets is not particularly important.

Most accountants include accrued liabilities such as taxes, interest, and wages, in Current Liabilities, but others make a separate group, Accrued Liabilities. Certain accruals, notably Federal taxes and commissions, are often shown as re-

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serves. It is a fairly well established principle that any provision for an expense that will have to be met, even though the exact amount may not be determined, is a liability as distinguished from a reserve, but it requires no little temerity for an accountant to insist upon showing as one of the current, or even accrued, liabilities, for example, a provision for Federal taxes, when payment of a large part, if not all, is considerably deferred.

Practices also differ with respect to the location in the balance sheet of reserves for depreciation, doubtful accounts, etc. Such reserves are sometimes shown under the head of liabilities and sometimes deducted (usually on the face of the balance sheet) from the asset items to which they relate. It seems that no invariable rule can be adopted, but it is generally preferable to deduct these reserves from the related assets. In the last analysis, there are but three classes of accounts shown in the balance sheet, viz., assets, liabilities, and proprietorship. To the extent that such reserves represent provision for decline in value of assets (actual or estimated) they are neither liabilities nor proprietorship, and are, therefore, deductions from assets. This excludes provision for obsolescence, etc., which may, if desired and if practicable, be segregated.

In the preparation of the balance sheet it should be the aim to express each item clearly, if necessary ignoring the names of accounts as they appear on the books. In other

words, the balance sheet should be a terse story about the financial condition of the business, not a mere trial balance after closing.

In the following pages will be shown and discussed in more or less detail the items which it is thought are generally included under the several groups of assets and liabilities making up the balance sheet, arranged in the order regarded by the author as the most satisfactory in the majority of cases.

CURRENT ASSETS

The items under this caption will be assumed to be as follows:

Cash
Cash on Deposit for Payment of Interest, etc.
Working Funds
Notes and Acceptances Receivable
Accounts Receivable:
  Customers
  Employees - on Liberty Loan Bond Subscriptions
  Others
Temporary Investments
Accrued Interest Receivable
Inventories:
  Finished Goods
  Work in Process
  Materials and Supplies
Advances on Materials Purchased

Cash. The general cash balance may be shown in one item, as above, or if the amount of cash on hand is considerable it may be shown separately, as "Cash on Deposit" and "Cash on Hand." In order to distinguish more clearly the general cash balance from deposits for special purposes, the former may

be designated as "Cash - Current Funds" or "Cash on Deposit - General Funds."

A bank overdraft should be shown among the current liabilities. However, if there should be an overdraft on one bank, represented by outstanding checks, which is more than offset by an available balance in another bank, there seems to be no objection, in a balance sheet of a going concern, to showing the net balance as an asset. If there is a net overdraft, consisting of an overdraft on one bank and a debit balance of smaller amount in another, the two items should be shown in the balance sheet as a liability and an asset respectively. It is sometimes found that overdrafts shown on the books are caused by entering checks considerably in advance of their being sent out. If practicable, the amounts of such checks in the office at the date of the balance sheet should be ascertained and the cash balance and accounts payable increased accordingly.

The "Cash on Deposit for Payment of Interest, etc." would include deposits for payment of coupons, dividends, matured funded debt, etc., the liabilities for which are included under current liabilities. Such deposits as for sinking funds, proceeds of sales of mortgaged property, gas and electric service, etc., should be shown separately, not under current assets.

<u>Working Funds</u>. By this term is meant cash funds in the hands of cashiers, salesmen, or others, for payment of current expenses or for making purchases. Some accountants classify such funds as Deferred Charges, but as they are practically as current

as the general cash, provided expenditures have been properly cleared, there seems to be no good reason for excluding them from current assets; in fact there should be no objection to combining them with the general funds, in the item "Cash."

The various funds may be shown separately or in total, depending upon circumstances.

Notes and Acceptances Receivable. It is generally satisfactory to combine notes and trade acceptances receivable, as there is no essential difference between them. However, if any considerable amount of notes represents other than trade obligations such notes should be shown separately, in which case the items would appear somewhat as follows:

Notes and Acceptances Receivable - Trade
Notes Receivable - Loans

or they might be shown as three items, thus:

Trade Acceptances Receivable
Trade Notes Receivable
Other Notes Receivable

The amount of contingent liabilities on account of endorsement of notes and acceptances may be disclosed under this heading by showing the total amount less the amount discounted, thus:

Notes and Acceptances Receivable........................	$100,000.00	
Less Discounted............	75,000.00	$25,000.00

However, the usual methods of showing such contingent liabilities are by means of footnotes or separate items on the balance sheet, as explained later.

<u>Accounts Receivable</u>. In the balance sheet of a commercial business it is usually desirable to show the trade accounts receivable separate from accounts representing loans or advances to individuals, or other accounts which are presumably not as current as customers' accounts. If all the accounts receivable are with customers it is well to designate the balance sheet item accordingly, thus: "Accounts Receivable - Customers." It is almost always desirable to anticipate the inevitable inquiry of a reader of the balance sheet as to the character of the accounts receivable by positive designation of the trade accounts.

The extent to which the accounts other than with customers are itemized depends upon the amounts thereof and other conditions. If the amounts of the accounts with officers and employees are considerable, they are usually shown separately. Any comparatively large amount of claims against transportation companies will also be shown as a separate item. However, if the total of the accounts other than customers' accounts is not large it may well be shown in one item - "Others." The guiding principle should be to furnish an interested person with sufficient information to enable him to form an opinion regarding the collectibility and liquidity of the accounts.

Credit balances in customers' accounts, not offset by debit balances with the same customers, are usually included among the liabilities, either as a separate item or added to the accounts payable. Likewise, debit balances in creditors'

accounts, unless they represent advance payments for merchandise or services, or are offset by credit balances with the same creditors, should be classified as accounts receivable, either being shown as a separate item or included in "Others." If the debit balances in creditors' accounts actually represent advance payments (which should not be assumed) they should be shown under Current Assets, as "Advances on Materials Purchased," or under Deferred Charges with appropriate explanation.

It is usually desirable to show separately accounts with affiliated companies. If such accounts represent advances of a permanent character, they should be carried under the head of Investments.

Many concerns assign their trade accounts receivable in consideration of advances made to them. For the better security of the lender, these transactions usually take the legal form of actual sales of the accounts, with or without notification to the customers, but for practical purposes they are loans secured by the accounts and amounting to about eighty per cent of their value. Remittances by customers are usually made in the regular way and the entire amounts turned over to the lender. Accepting the theory that the accounts are pledged rather than sold, it seems logical to carry them as assets at their face value and the balance due the lender as a liability. This balance will consist of the original advances on unsettled accounts less the margin of, say, twenty per cent not yet refunded by the lender on accounts which have been settled. Under

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this treatment the customers' accounts will be shown on the balance sheet as follows:

Accounts Receivable - Customers:
Pledged
Unpledged

The alternative procedure, which in the opinion of the author is illogical, is to show as assets the equity in the assigned accounts and the refund due on settled accounts. However, this method will be found useful in the preparation of certain condensed financial statements in which it is desired to set forth the net assets of each class. Such statements will be discussed later.

Practices differ with respect to the treatment in the balance sheet of reserves for doubtful accounts, discounts, etc. Some accountants deduct them from the assets, while others show them among the liabilities. In the opinion of the author, reserves against specific accounts regarded as uncollectible or doubtful should always be deducted; but if all such accounts have been written off and the reserve represents general provision for such loss as may be sustained in the future, there seems to be no valid objection to carrying the accounts at their face value and showing the reserve among the liabilities, upon the theory that it is virtually a reserve for contingencies. That theory has actuated the Treasury Department to disallow deduction, as such, of amounts reserved for expected losses. If it is a settled policy to show reserves for uncollectible accounts among the liabilities, any considerable amount of doubt-

ful accounts covered by a reserve should be separated from the current accounts and included in the deferred charges. With regard to reserves for trade discounts, quantity discounts, allowances, freight, etc., there seems to be little doubt that they are properly deductible from the assets. The author does not advocate setting up a reserve for cash discounts to be allowed to customers on outstanding accounts, believing that such discounts become a charge when taken and not when the sales are made.

The method of treating employees' subscriptions for government securities is not as live an issue as it has been, but undoubtedly some such balances will be carried for a considerable time, and it may therefore not be amiss to devote some attention to the subject. Generally speaking, employers who have purchased Liberty Loan bonds and Victory Loan notes for employees have also purchased some for their own account; and in perhaps most cases the employers do not insist upon the employees completing their payments if they desire to be released. In view of these conditions it has become quite a general practice to carry all these securities purchased in one account, that is, to treat them all as owned by the employer; to credit receipts from employees to a liability account; and when an employee completes payment to credit the former and charge the latter account. In the opinion of the author it is preferable to carry separate accounts for the cost of the securities, charging the employees with the cost

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of bonds subscribed for by them, upon the theory that the employees actually own the bonds and the employer has merely advanced the purchase price and is holding the bonds as security; the receipts from employees to be credited to their accounts and any necessary adjustments to be made later. The aggregate of the balances of these accounts would then be shown on the balance sheet as Due from Employees on Liberty Bond Subscriptions.

In this connection consideration may be given to the treatment of obligations of the business arising from the purchase of government bonds or notes. During the period of war financing there appeared to be some question as to whether the total amount of bonds subscribed for should be shown as an asset, the unpaid instalments or loans being shown as a liability, or merely the equity be shown as an asset, with or without details. Inasmuch as banks have always regarded the bonds as the property of the borrowers and not as sold on the instalment plan, it appears that both the asset and the liability should always have been shown, although the latter may have been differentiated from other notes payable. Moreover, any conditions prevailing during the war financing which may have seemed to warrant unusual treatment of notes payable secured by Liberty Loan bonds and notes, certainly do not prevail now.

<u>Temporary Investments</u>. Whether or not securities may properly be classified as current assets depends primarily upon the purpose of holding them, and secondarily upon their

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marketability. If the securities can be disposed of readily, and without changing the company's policy with respect to its investments or affecting its business relations, they may be considered current assets. If, on the other hand, they are regarded as more or less permanent investments, or represent proprietary or controlling interests, they should be treated as permanent investments, even though marketable at will. The maturity of the securities may not necessarily be a criterion; a company may invest some part of its permanent reserve funds in short-term notes on account of their higher interest rate.

The book value of securities carried as current assets should not be materially in excess of market value. If any of the securities are pledged that fact should be indicated on the balance sheet.

There will usually not be many items of temporary investments, and it is preferable, if practicable, to carry them in the balance sheet by name instead of as a group.

Accrued Interest Receivable. This may be shown in one amount or itemized as, for example, on notes receivable and on bonds owned.

Inventories. As much detail regarding inventories may be shown in the balance sheet as the circumstances seem to call for. It is usually desirable to classify the inventories of a manufacturing business in the general groups of finished goods, work in process, and materials and supplies.

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Some accountants classify supplies which are not actually ingredients of the product - fuel, repair parts, stationery, etc., - as Deferred Charges, along with other prepaid expenses, but the author makes a distinction between physical or tangible items and intangible items, including the former in Inventories, under Current Assets.

If any of the merchandise is pledged, that fact should be indicated on the balance sheet, either in the item itself or in a footnote.

In an audit report it is frequently desirable to qualify the balance sheet with respect to responsibility for physical inventories as to quantities or prices, or both. This can be done effectually by stating the caption in one of these ways:

Inventories as Taken by the Company
Inventories as Taken and Valued by the Company
Inventories (not verified)

If physical inventories have not been taken and the book inventories are not accepted without qualification, the item may be shown thus: Inventories - Book Value.

Any reserve against decline in value of inventories or for interdepartmental profit on goods on hand, should usually be deducted from the amount of the inventory. The deduction of a reserve representing a conservative provision, not actually required, is usually shown on the face of the balance sheet.

In certain seasonal businesses, such as the dry goods business, it is quite customary, in closing the books at the end of a season, to exclude from the accounts purchases and

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expenses for the next season's business. There are often large amounts of goods on hand for the succeeding season which are not included in the inventory; and the invoices therefor, which usually bear future dating, are not taken up as liabilities. As the practice is well established there seems to be no objection to the elimination of the contra asset and liability, provided settlement is not required for some time in the future and it is definitely determined that the merchandise is on hand and is not included in the inventory. The writer has known of cases where part of the next season's goods have been sold without any charge having been made for the cost thereof. There should always be a footnote on the balance sheet to the effect that the asset and the liability have been excluded.

Any considerable amount of merchandise out on consignment should be shown as a separate item. The same applies to samples, if inventoried at all. Merchandise held on consignment, for account of others, should not be shown on the balance sheet, but any advances thereon should be carried as a separate item under Current Assets.

Carrying charges on merchandise - storage, insurance, etc., - may properly be added to the cost of the merchandise unless the total exceeds its market value. For balance sheet purposes it is usually necessary to show only one amount as the value of such merchandise, but in certain cases it seems desirable to separate the carrying charges from the original cost.

Investments. Under this head should be shown permanent or long-term investments, such as: securities of, and ad-

vances to, subsidiary companies; securities representing investments of reserves; and real estate, other than plant, purchased for investment or acquired in settlement of a debt.

If the items are too numerous to be shown separately on the balance sheet the details should be given in a schedule or in the comments. The essential points as to securities are: par value, number of shares of stock, maturity and rate of interest of bonds, book value, and perhaps market value. It is not usually necessary that investment securities be carried at market, or liquidating value, but if there is a considerable difference between the book value and the actual investment value as determined from the most reliable available source, that fact should be brought out in some manner. The treatment of investments in subsidiary companies in connection with consolidated balance sheets is discussed in Chapter III.

If any of the securities are pledged that fact should be indicated on the balance sheet.

Investments in subsidiary companies may be exhibited somewhat as follows:

Investments in Subsidiary Companies:
A. B. Company:
Stock - 1,000 shares
Advances

Total

C. D. Company:
Stock - 100 shares
Bonds

Total

Total Investments in Subsidiary Companies

SINKING FUND

The composition of the sinking fund should be shown on the balance sheet. It will be assumed to be:

Cash
Securities
Accrued Interest

The securities should be fully described. They may be outside securities or some of the bonds for which the sinking fund is created, which have been purchased out of the sinking fund instalments but are not canceled and continue to bear interest. Such bonds, if purchased at a discount or premium, should be written up or down to par value, and when brought to par they may properly be deducted on the face of the balance sheet from the bonds issued, whereupon the sinking fund assets may be shown thus: Sinking Fund - Cash and Accrued Interest (Bonds Deducted from Liabilities, per Contra).

PROPERTY

The physical property, i.e., the land, buildings, and equipment, with which a business operates, is grouped under various heads, the most common being Property, Plant Property, and Property and Plant. The author favors the first of these in most cases, as there is often property which is not aptly described as "plant," even though, in a broad sense, it is employed in the business; and the word "property" seems to have acquired a technical significance so that it needs no modifier. However, where there are outside investments in real estate, carried separately, and the property pertaining to the business

itself may be appropriately thus designated, it may be better to use the term Plant Property. If there is no real estate, it may be appropriate to use the caption "Equipment."

The usual balance sheet classification of property for a manufacturing concern is somewhat as follows:

Land
Buildings
Machinery and Factory Equipment
Automobiles, Horses, and Wagons
Office Furniture and Appliances

In an audit report the principle of valuing the property should be made clear in the balance sheet, comments, or certificate - whether the valuation is at cost, depreciated cost, appraised reproduction cost, or appraised sound value, i.e., depreciated reproduction cost (of course, the depreciation does not apply to land). While the accountant may not question the propriety of adjusting the book value of property to conform to values determined by competent appraisers, under recent conditions such an adjustment almost invariably constitutes appreciation, if not inflation, and it is desirable to disclose in the balance sheet any considerable accretion to surplus from such a source, or at least to mention that the appraised value is used, so that any interested person is put on notice and may thereupon inquire regarding the effect of the adjustment upon the surplus.

Provision for depreciation is generally carried in reserve accounts, rather than credited to the property accounts. Such reserves may be deducted from the assets on the face of the balance sheet, in total or in detail, or be shown among the

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liabilities. Ordinarily it probably makes very little difference which of these methods is adopted, except for the sake of uniformity, especially if the amounts reserved have little or no direct relation to physical depreciation. However, as there are more cases in which it appears to be desirable for one reason or another to deduct the reserves from the assets than there are for showing them as liabilities, if an invariable rule is to be established it is probably better to deduct them from the assets. This appears to be logical, as depreciation reserves represent little, if anything, more than bookkeeping expedients, designed to show the total provision for depreciation at any time, and to permit of showing in the asset accounts the total cost of property, neither of which would be shown if the depreciation were credited to the asset accounts. It will be observed that the Federal Reserve Board in its standard form of balance sheet recommends the practice of deducting the reserves from the assets; in that form the assets are stated in more or less detail but the reserves are shown in total only. On the other hand, most of the commissions having jurisdiction over public utilities prescribe that the reserves shall be carried as liabilities.

If no provision has been made for depreciation, or if the provision is obviously inadequate, it is usually necessary to call attention to the fact in a footnote.

The foregoing remarks on depreciation apply equally to depletion of natural resources.

GOOD-WILL, PATENTS, TRADE-MARKS, ETC.

The only point to be considered regarding the stating of these intangible assets in the balance sheet is that they should be shown separately, that is, not included with the tangible property items. In those cases where such separation is impracticable, the item should be described in such language as to indicate clearly that intangibles are included.

DEFERRED CHARGES

This classification is intended to cover various expenditures which are applicable to future operations, or which are held in suspense pending determination of their actual status. In many cases the group is also made to include working funds, special deposits, advances for various purposes, and accounts receivable the collection of which is deferred. The titles used for this group of items are various, e.g.: Deferred Charges, Deferred Debit Items, Deferred Assets, and Prepaid Expenses. The latter two terms could not always be employed. While the connection is rather remote, it is nevertheless interesting to observe that the Interstate Commerce Commission, in its standard form of balance sheet for steam roads (that for electric railways is virtually the same) prescribes two groups, Deferred Assets and Unadjusted Debits, classified as follows:

Deferred Assets:
- Working Fund Advances
- Insurance and Other Funds
- Other Deferred Assets (not further defined)

Unadjusted Debits:
- Rents and Insurance Premiums Paid in Advance
- Discount on Capital Stock
- Discount on Funded Debt
- Property Abandoned Chargeable to Operating Expenses
- Other Unadjusted Debits (defined as debit balances in suspense accounts that cannot be entirely cleared and disposed of until additional information is received; items credited to operating revenues or operating expenses on an estimated basis; unextinguished discount on short-term notes; estimated accrued depreciation on equipment leased; and other similar items).

The same commission, in its classification of accounts for carriers by water, includes virtually the same items as are contained in both the foregoing groups under the caption "Deferred Debit Items."

It appears that the Federal Reserve Board intends that only "prepaid expenses, interest, insurance, taxes, etc.," shall be classified as Deferred Charges; and that any unusual items shall be carried under the head of "Other Assets."

For the purpose of exemplifying principles it will be assumed that the following items are included under the caption "Deferred Charges":

- Unexpired Insurance
- Interest Paid in Advance
- Taxes Paid in Advance
- Unamortized Debt Discount and Expense
- Experimental Expenses
- Unamortized Improvements to Leased Property
- Unamortized Organization Expenses
- Deposits with Public Utility Companies, etc.

The first three of these require no comment except to call attention to the impropriety of showing net debit balances if there are considerable accrued liabilities involved. For example, the company may have one account for all insurance,

and the debit balance may comprise the unexpired proportion of premiums on fire insurance less a large accrual on account of liability insurance premium, based upon the pay-roll. The same principle applies to interest and taxes.

Unamortized Debt Discount and Expense. The name used for this item is the customary one for railroads and public utilities, in the accounts of which companies it most frequently appears. If appropriate, the item may be designated more simply as Unamortized Discount on Bonds.

This item frequently requires particular attention in the preparation of audit reports, as the amount is so often incorrect. The balance in the account, or accounts, should unquestionably represent the proportion of discount and expense applicable to the principal of the bonds or notes outstanding at the date of the balance sheet, computed upon the basis of the term during which interest will be paid on the securities. Yet it is found that companies retire bonds in advance of maturity, through sinking funds or otherwise, crediting Profit and Loss with discount on the purchase and leaving the discount on the sale to be written off over the original term of the bonds. It is also occasionally found that a company has issued short-term notes at a discount and continues to carry the discount as an asset after maturity with the intention of amortizing it over the term of a refunding issue - which is also sold at a discount.

If in making an audit it is found that through some such method the asset account is grossly overstated, and not corrected, the balance sheet in the auditor's report should so indicate, either in the item itself or in a footnote. If the amount of overstatement is nominal the matter may be covered in the comments of the report.

Experimental Expenses. The amount to be shown thus should be the cost to date of experimental work which has not yet reached the point where its value may be determined. It is assumed that if hopes are realized the cost will be capitalized; otherwise it will be written off.

Unamortized Improvements to Leased Property. This item should represent the remainder of the cost of alterations to, and fixtures, etc., installed in, leased property, which cost is being amortized over the term of the lease. Buildings erected on leased land, and improvements to leased buildings, when the leases cover a long term, may properly be carried as Property, subject to depreciation, practically the same as property held in fee.

Unamortized Organization Expenses. It is assumed that in this case it is not the intention to capitalize the organization expenses, notwithstanding that amortization thereof will not be allowed as a deduction in the income tax returns. The word "unamortized" indicates that some part has been written off; otherwise there would seem to be no reason to use it.

In amortizing such accounts as this, the amortization is sometimes credited to a reserve, which is included among the liabilities. There is nothing to be gained in this procedure from the standpoint of the balance sheet. However, in this particular case, it may possibly be that the amount charged to Profit and Loss would in that manner be advantageously kept in sight as a part of invested capital for the computation of the excess profits tax.

CURRENT LIABILITIES

The following classification will be assumed:

Notes Payable - Loans
Trade Notes and Acceptances Payable
Accounts Payable
Dividends Payable
Accrued Accounts:
  Wages
  Taxes
  Interest

Notes and Acceptances Payable. It is well to show loans separate from trade liabilities, as above. When the obligations are secured it may be desirable to indicate the fact, although in most cases in which specific property is pledged, the statement to that effect in the description of the asset item is sufficient. In an audit report there is generally at least a summary of the obligations by maturities, but such details as are given are usually presented in a schedule or in the comments of the report. Consideration should be given to the practical value of details of such obligations, in view of the time that may have elapsed, before presenting them in the report.

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Accounts Payable. If desired, the accounts payable may be classified in groups somewhat as follows: Trade Creditors or Audited Vouchers, Advances or Loans, and Others (if any). However, there is not the same necessity for differentiating between trade and other accounts as there is with accounts receivable, the only purpose being to show that some are not payable immediately. Credit balances in customers' accounts, not offset by debit balances with the same customers, should be included in accounts payable; they may be so described if desired but it is not usually necessary. It is usually desirable to show separately accounts with affiliated companies.

In the opinion of the writer no deduction should be made from accounts payable for cash discounts which may be taken in settlement of the accounts, for the reason that the discount is earned when the account is paid and not when the purchase is made.

If any accounts payable, together with the related assets, be omitted, as is frequently done in the case of purchases of goods for the succeeding season (see Inventories) the fact should be covered by a footnote.

Dividends Payable. Dividends declared but not paid at the date of the balance sheet should be included in the current liabilities, as above. Many companies regard preferred stock dividends as fixed charges and accrue them on the books. Such accruals, at any date other than immediately

preceding the date of payment, should be treated as reserves rather than current liabilities.

<u>Accrued Wages</u>. This amount should represent the actual or estimated accrual of wages at the date of the balance sheet, payable in the subsequent period. Wages or salaries due, and unclaimed, or for any other reason unpaid, should be included under the head of Accounts Payable, Accounts and Wages Payable, or Unclaimed Wages.

<u>Accrued Taxes</u>. This item is intended to represent taxes accrued but not due at the date of the balance sheet. Any that are due and unpaid should be shown separately, as Taxes Payable, or included in Accounts Payable.

Many companies object, on account of the effect upon the comparison of current assets with current liabilities, to classifying as Accrued Taxes the provision for Federal income and excess profits taxes, part payment of which is considerably deferred; and it is difficult to controvert their contention when the business is continuing and prosperous. However, it is dangerous to follow this process of reasoning to its conclusion and regard such taxes as payable out of the income of the period in which paid.

If a client has not made provision for all accruals of taxes, the auditor should state the fact in a footnote on the balance sheet. If practicable, the amounts of such accruals, especially of Federal taxes, should be given in the footnote.

The asset of taxes paid in advance should not be deducted from the liability for accrued taxes.

Accrued Interest. This liability may be divided, if considered desirable, into such items as Accrued Interest on Bonds and Accrued Interest on Notes Payable. Any interest matured and unpaid should be shown as a separate item with an appropriate title.

Interest paid in advance, that is, on notes discounted, should not be deducted from accrued interest payable.

FUNDED DEBT

The indebtedness shown under this caption is distinguished from floating debt, shown under Current Liabilities, by its term rather than its security. Usually bonds, notes, or mortgages maturing in less than a year are treated as Current; as are also any longer-term securities which have matured but are unpaid, or which will mature the next day.

The items should be fully described in the balance sheet, and if there be only one the caption may be omitted. The date, or year, of maturity is especially important.

Securities held in the treasury and in sinking funds are usually deducted from the liabilities. If for any valid reason their book value is different from par value, it is, of course, impossible to deduct them and they should be carried as assets. If treasury securities have been purchased at a discount to be held only temporarily, nothing is gained by writing them up to par.

The following illustrates several conditions under which bonds may be issued and held:

First Mortgage, Sinking Fund, 5% Bonds, due 1925 (Authorized, $1,000,000.00):			
Issued		$500,000.00	
Less:			
Held to Redeem Outstanding Underlying Bonds	$100,000.00		
Held by Sinking Fund Trustee	100,000.00	200,000.00	
Outstanding			$300,000.00
Refunding Mortgage, 5% Bonds, due 1950:			
Issued		$200,000.00	
Less Held in Treasury:			
Deposited with Blank Commission	$ 50,000.00		
Unpledged	50,000.00	100,000.00	
Outstanding			100,000.00
General Mortgage, 6% Bonds, due 1942:			
Issued		$100,000.00	
Less in Treasury - Pledged to Secure Notes Payable		100,000.00	
Outstanding			nil
Six per cent Debenture Notes, due serially, 1921-1925:			
Issued		$100,000.00	
Less Retired through Sinking Fund		50,000.00	
Outstanding			50,000.00

DEFERRED CREDITS

This group is just the opposite of Deferred Charges. It is intended to include all receipts on account of income which is not yet earned, such as interest and rent collected in advance, and any receipts the disposition of which has not been determined. The term Deferred Credits is often made to cover advance collections on

sales, unpresented coupons, etc., but when inventories are included in current assets such advance collections may well be properly classified as current liabilities, notwithstanding that a part of the amount collected may represent profit.

RESERVES

The items under this caption will be assumed to be as follows:

Depreciation
Doubtful Accounts
Donated Treasury Stock
Sinking Fund
Contingencies

Depreciation. As stated in the foregoing, under the head of Property, reserves for depreciation may be deducted from the corresponding property items, or be carried among the liabilities, although the former treatment is generally preferred. On whichever side of the balance sheet they are carried, it is thought to be usually desirable to show as much detail of the reserves as of the depreciable property. It is often appropriate to show the details in a schedule, or in the comments, in the case of an audit report.

Doubtful Accounts. The reserves for doubtful, or uncollectible, accounts receivable, or "bad debts," may also be deducted from the corresponding asset item or items, as previously stated, although there are cases when it appears that it may not be insisted upon.

Donated Treasury Stock. The subject of accounting for donations of capital stock is a large and much-debated one. It will only be touched upon here.

Some accountants assert that the proceeds from sales of stock issued for property (usually intangible) and donated back to the company to provide working capital, should be credited to the property account affected. In the opinion of the author this is usually improper, unnecessary, and futile - improper because it overrides the action of the directors in valuing the property; unnecessary because no one is likely to be misled regarding the actual value of the property in any event; and futile because the deduction of the proceeds from sales of the donated stock does not usually result in a much more accurate statement of actual values.

If not deducted from the stated value of property, the proceeds from sales of donated stock become capital surplus. But before the stock is sold it is necessary to record it as in the treasury. Opinions differ as to the value to be placed upon such stock while held in the treasury. In the opinion of the author it makes little difference whether the stock is carried at par or at a nominal value, provided the offsetting credit is not carried to surplus. The preferred method is therefore as follows: Carry the treasury stock at par, deducting it from the amount issued; carry the offset in a Reserve for Donated Treasury Stock; as stock is sold credit the proceeds to a capital surplus account, which may be entitled Donated Working

Capital or Surplus Arising from Sales of Donated Capital Stock, and clear the Treasury Stock and Reserve for Donated Treasury Stock accounts.

Sinking Fund. As sinking fund reserves are frequently encountered when a company has issued bonds with a sinking fund provision, the matter is dealt with under this head, although the word "reserve," as applied to provision for paying an obligation for which the company has received value, is a misnomer. Many sinking fund clauses in mortgages stipulate, evidently for the better security of the bondholders, that the sinking fund instalments must be paid "out of earnings"; and this is often construed as effecting a reduction of the earnings to which the stockholders are entitled. This interpretation is illogical and should be overridden if practicable. Bonds are invariably issued to pay for permanent capital assets. It being assumed that due provision is made for depreciation or depletion of the property during the life of the bonds, there should not be a double charge against income to pay for the property, that is, to keep the capital intact. There should only be a segregation of assets sufficient to liquidate the obligation at maturity. If, notwithstanding the fallacy of so doing, amounts equivalent to the payments into the sinking fund are charged against current income, they should be credited to an Appropriated Surplus account, which should be shown on the balance sheet under the head of Surplus. Upon liquidation of the

bonds by means of the sinking fund assets there will be no further reason, or excuse, for keeping the reserve separate and it will become free surplus, available for dividends.

Contingencies. The only point regarding this reserve that need be mentioned is that it should be, in fact, a reserve for contingencies; that is, it should not include provision for known charges even though their amounts may not be determined. If the reserve is of a general nature, including, for example, provision for depreciation, its designation should be such as to disclose that fact.

CAPITAL STOCK

If there is more than one class of capital stock it is generally desirable to show each as a main item of the balance sheet, rather than to combine them as a group. The total of all classes usually has no significance, and may indeed be misleading, as the shares of one class usually differ from the shares of another class in respect of the proportion of surplus or deficit applicable thereto.

The balance sheet should show, as to each class of capital stock, full information regarding the number of shares authorized, issued, and outstanding, and the par value per share, if any. In the case of preferred stock it is usually desirable to state whether it is cumulative or non-cumulative and the rate of dividend; also any other essential facts regarding the relation of the preferred to the common.

There are two general methods of stating the authorized issue, exemplified as follows:

(1) Common Capital Stock - Shares $100.00 each:		
Authorized, 1,000 shares.	$100,000.00	
Less Unissued, 100 shares	10,000.00	
Issued and Outstanding, 900 shares....................		$90,000.00
(2) Common Capital Stock - Authorized, 1,000 shares of $100.00 each; Outstanding, 900 shares...........................		90,000.00

It is believed that the latter method is preferable.

The method of showing a lesser amount outstanding than issued is illustrated as follows:

Preferred Capital Stock - 8%, Cumulative:		
Authorized and Issued, 1,000 shares of $100.00 each.....	$100,000.00	
Less in Treasury, 100 shares.	10,000.00	
Outstanding, 900 shares......		$90,000.00

This treatment presupposes that the treasury stock is carried on the books at par value. If its cost to the company is less than par, and it is likely to be disposed of for less, it is equally proper to carry it as an asset at cost or realizable value, or, if donated, at a nominal value.

When capital stock is subscribed for but not issued, the subscriptions are usually included under the head of Capital Stock, somewhat as follows:

Class "A," Participating, 7%, Cumulative, Preferred Capital Stock (Authorized, 1,000 shares of $100.00 each):		
Issued, 500 shares	$50,000.00	
Subscriptions - 50% Paid - 100 shares	10,000.00	
Total		$60,000.00

This treatment contemplates carrying the uncollected balance on the subscriptions as an asset. It is sometimes desirable to show as a liability only the amounts collected on subscriptions.

When capital stock has no par value that fact should be indicated. The value at which it is carried should be the consideration received by the company for its issue. There is a growing practice of placing a value upon non-par-value stock of less than the consideration actually received, which has legal sanction in some States. In New York State the minimum value for which such stock may be issued is $5.00 a share, and the capital may not be reduced, by payment of dividends, below the value stated in the certificate of incorporation. Accordingly, advantage is being taken of the wording, if not the intent, of the law and a value of $5.00 put upon each share regardless of the consideration received, the obvious purpose being to enable the corporation to pay dividends out of actual capital if desired. Any excess of capital paid in by stockholders over an arbitrary value placed upon the stock should be shown as Capital Surplus, preferably under the head of Capital Stock, or, as it is sometimes called, Share Capital.

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Assuming that there is no preferred stock, or if there is, that its share in the profits is limited to its stated dividend rate, and that the dividend thereon to date has been paid or reserved, the stock without par value may be stated as including the surplus, somewhat as follows:

(1) Common Capital Stock - without par value:		
Stock Issued and Outstanding - 1,000 shares (Authorized, 2,000 shares)....................	$53,246.27	
Surplus......................	21,659.46	$74,905.73

(2) Common Capital Stock:		
Stock Authorized and Outstanding - 1,000 shares of no par value, but of a declared value of $5.00 each.................	$ 5,000.00	
Capital Surplus.............	48,246.27	
Profit and Loss Surplus.....	21,659.46	74,905.73

While some such combination as one of the foregoing is undoubtedly logical and in many cases desirable, the author does not recognize any inherent difference between stock with par value and stock without par value with respect to the relation of the stock to the surplus, and believes that in most cases such a direct combination as the above is not called for, preferring to state non-par-value stock at the value originally placed upon it, the same as par-value stock. It is always appropriate to group all classes of stock and surplus under the head of "Capital Stock and Surplus" or "Capital," or to bring out the distinction between common stock and preferred stock which is

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limited as to dividends, by allocation of the surplus or deficit to the common stock, somewhat as follows:

Preferred Capital Stock....................		$100,000.00
Equity of Common Stockholders:		
Common Capital Stock........	$100,000.00	
Surplus......................	100,000.00	200,000.00

Such allocation of surplus might, if practicable, be extended to exhibit the values of participating preferred stocks. The principle applies whether or not the several classes of stock have a par value.

SURPLUS

While the word "surplus" literally denotes the excess of assets over liabilities and original capital, when employed without explanation of its composition it is usually intended to, and in fact should, mean earned surplus, as distinguished from capital, or special surplus. The latter, however specifically described, should include paid-in capital in excess of the stated value of capital stock; donated capital; appreciation of intangible values; and appreciation of property representing unearned increment, which may with propriety be considered for some purposes but may not constitute distributable profit.

The term "surplus" may also be assumed to denote free surplus, i.e., surplus regarded as available for distribution and not appropriated for some other purpose.

Opinions of prominent accountants differ considerably with regard to the necessity for segregating as capital, or

[illegible]

special surplus, some or all of the extraordinary credits cited above, it being argued by some that reasonable appreciation of property is in fact earned surplus, and by others that the surplus is simply the balancing figure and that the word is not necessarily synonymous with Undivided Profits. In controversion of all such arguments, it is submitted that the word "surplus" is generally understood, not only by laymen but by most accountants, to denote free surplus from normal operations, and that the inclusion in a balance sheet item thus described of considerable amounts of such extraordinary credits as the above, without qualification, may put the accountant in the position of tacitly countenancing, if not abetting, misinformation of readers of the report who are not cognizant of the conditions. In cases involving the valuation of assets, adequate qualification may be expressed in the description of the asset items of the balance sheet, by fully stating the basis of valuation, preferably showing the amount of appreciation. It is thought not to be sufficient to refer in the balance sheet item Surplus to the accompanying statement of income and profit and loss which shows the credits in question, as the balance sheet should generally speak for itself as to such important features, and, furthermore, in succeeding years the items will not be shown on the accompanying statement.

A special surplus representing appreciation of property should be charged with the proper proportion of subsequent depreciation, depletion, or amortization of that property. This

maybe done by crediting the property or reserve account directly, or by crediting Profit and Loss as a partial offset to the depreciation, depletion, or amortization, based upon the appreciated value, previously charged to operations and credited to the property or reserve account. Under either method the proportion of depreciation, etc., applicable to the appreciation in value becomes "realized appreciation," and as such, is earned surplus.

There is no objection to crediting to Surplus a premium on the sale of capital stock of a successfully established company.

In accounting parlance the word surplus, as applied to commercial companies, is an evolution from Profit and Loss Balance; therefore, the item is often described as Profit and Loss Surplus. There seems to be no present necessity for the prefix "Profit and Loss" unless it is necessary to distinguish such surplus from Capital Surplus or some other special form of surplus.

Representative accountants employ two general methods of exhibiting the surplus in a balance sheet. In one the balance at that date only is shown, with a reference to the accompanying Statement of Income and Profit and Loss - thus: Surplus, per Exhibit "B," $100,000.00 In the other, whether or not there is a Statement of Income and Profit and Loss, there is shown in the balance sheet the balance of surplus at the beginning of the fiscal period, a summary of the charges and

credits for the period, and the balance at the end, somewhat as follows:

Surplus:		
Balance, January 1, 1919....	$100,000.00	
Surplus for the Year........	50,000.00	
Total..........	$150,000.00	
Less:		
Charges applicable to prior period (net)........ $10,000.00		
Dividends...... 40,000.00	50,000.00	
Balance, December 31, 1919..............		$100,000.00

If a Statement of Income and Profit and Loss is rendered, that statement may be referred to in the item "Surplus for the Year."

The essential difference between the two methods exemplified in the foregoing is that under the first method all profit and loss or surplus charges and credits are shown in the profit and loss statement rather than in the balance sheet. When the balance sheet only is rendered, it is generally desirable to show a summary of the surplus in the balance sheet, as under the second method, unless there is objection to disclosing the results of operations or the dividends.

As stated under the preceding caption, "Capital Stock," in some cases it seems desirable to combine the surplus with the capital stock.

It is ordinarily considered proper to show a deficit on the asset side of the balance sheet, but if there is a capi-

tal surplus it seems desirable to deduct the operating deficit therefrom. In some special statements, it is deducted from the capital stock to show the actual net worth.

CAPITAL (Sole Proprietorship or Partnership)

In the balance sheet of a sole proprietorship or partnership there is usually one item, viz., "Capital," which corresponds to the capital stock and surplus of a corporation. However, the proprietor or partners may prefer to carry separately the original capital invested or such amount (including subsequent investments of new capital or accretions from income) as is regarded as the fixed capital, the remainder being shown as Undivided Profits.

If the Undivided Profits are kept separate it seems to be appropriate to show in the income statement the withdrawals during the period and the balances at the beginning and end of the period. The balance sheet items would then appear somewhat as follows:

Capital:		
Investment....................	$300,000.00	
Undivided Profits, per Exhibit "B"..................	50,000.00	
Total Capital..............		$350,000.00

Where only one account is carried for capital, that fact is of itself no logical reason for treating withdrawals of income differently, but it may well be an indication that there is no intention or desire to differentiate between capital in-

vested and accretions through income, and possibly that it is not regarded as important whether or not the withdrawals exceed the income. In any event, the elements of capital other than undivided profits have no proper place in a statement of operations. Therefore, if an invariable rule is to be established, it is better in such cases, in the opinion of the author, to carry the net credit to capital on account of operations from the income statement to a summary of the capital account for the year, which may be shown in the balance sheet, in the comments of an audit report, or as an addendum to the income statement - which in that case should be entitled "Statement of Income and Capital Account." It seems appropriate generally to show the information in the balance sheet, somewhat as follows:

Capital:		
Balance, January 1, 1919....	$325,000.00	
Additional Investment during the Year..................	50,000.00	
Net Income for the Year, per Exhibit "B"...............	50,000.00	
Total..........	$425,000.00	
Less Withdrawals............	75,000.00	
Balance, December 31, 1919..............		$350,000.00

In a balance sheet of a partnership the balance of capital may be divided to show the respective interests of the partners.

CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities fall into two classes - those which are, and those which are not, offset by corresponding

contingent assets. Of the former class are liabilities on account of notes and drafts discounted, accommodation endorsements and guaranties, and unused letters of credit; of the latter class are continuing guaranties of product and legal or other claims for which there can be no recoupment.

It is important that the balance sheet disclose any considerable amount of contingent liability. This is usually done by means of footnotes, but where there are offsetting contingent assets the items are frequently shown on both sides and included in the totals. For example, the most common item, customers' notes and acceptances discounted, may be shown thus:

Asset - Notes and Acceptances Receivable Discounted (see contra)...............	$100,000.00
Liability - Discounted Notes and Acceptances Receivable (see contra).........	100,000.00

UNDECLARED DIVIDENDS ON CUMULATIVE PREFERRED STOCK

There is no legal justification for setting up a liability for dividends until they are declared. However, there is no objection to accruing a dividend on preferred stock when it is known that it will be paid. This is often done, especially in public utility corporations, and is frequently desirable in connection with determining the balance of surplus applicable to the common stock. As such accruals do not in fact constitute liabilities, they should be treated as reserves.

When a corporation is in arrears in declaring dividends on cumulative preferred stock, it is well to state the

fact in a footnote to the balance sheet, as such arrearage has a decided bearing upon the value of both preferred and common stocks.

* * * * *

For most businesses it is desirable to present the balance sheet in comparative form, unless it is known that it is not desired by the officials. This, of course, should be done in an audit report only if the accounts have been audited by the accountant for the preceding period, or as of the end of that period, unless the client desires to have comparisons shown subject to qualification regarding the figures for the prior date. Very often the client would appreciate the comparisons even though the accountant might have to qualify the statement with regard to the figures for the prior date by reason of his not having audited the accounts at that time.

A comparative balance sheet may show the figures for both dates and the comparisons, in which case it would be entitled, e.g., "Balance Sheet, December 31, 1919 and 1918, and Comparison;" or the figures for the prior date may be omitted, when it would be entitled, e.g., "Balance Sheet, December 31, 1919, and Comparison with December 31, 1918." Business men generally like to see the figures for both dates. The current date should be at the left.

The comparison may be shown in two columns, increase and decrease, or in one column, increases in black and decreases in red. The latter method is generally preferred.

In the rather rare cases where it is desired to show on one sheet the balance sheets for more than two dates no comparison is usually wanted. In such a case an appropriate heading is, e.g., "Balance Sheet, December 31, 1919, 1918, and 1917."

In the preparation of comparative balance sheets it is often necessary to change the arrangement of items at the prior date in order to effect a true comparison with the current date. In some cases it is desirable for this purpose to show items of the prior date in red.

* * * * *

While qualifications regarding balance sheet items in an audit report are usually expressed in the comments, they should be made on the face of the balance sheet, whether or not repeated in the comments, if they are so material as to have a decided bearing upon the financial condition.

Judicious use should be made of schedules for the presentation of details which if shown in the balance sheet itself would make that exhibit cumbersome. As has been seen, it is also appropriate in many audit reports to utilize the comments for displaying details.

* * * * *

Following are specimen balance sheets and statements of financial condition of single concerns which are illustrative of the practice, under several varieties of conditions, of perhaps most prominent American accountants. It is not claimed that the whole field, or any considerable part of it, is covered, but it is thought that the solutions to most of the problems regarding form which are commonly encountered in actual practice are either exemplified or are suggested by analogy, excepting where the forms to be used are prescribed by some jurisdictive authority, such as a public commission.

Form 1 is a simple balance sheet of a corporation at a single date, vertical arrangement, presumed to be accompanied by a statement of income and profit and loss, which is referred to in the statement as Exhibit "B."

Form 2 is similar, and illustrates the usual manner of exhibiting a deficit and one method of showing donated stock in the treasury and the credits resulting from sale and valuation of donated stock.

Form 3 is a still simpler balance sheet of a sole proprietor, in which no classification of the items is made and the changes in capital during the year are shown.

Form 4 is a condensed balance sheet of a corporation, with some new features, including a footnote.

Form 5 is a balance sheet of a branch, the balancing account of which is with the main office.

Form 6 is a more elaborate balance sheet of a corporation, lateral arrangement, exemplifying among other things, the use of schedules and the summarizing of changes in surplus during the year.

Form 7 is a condensed balance sheet of an association whose capital is in the form of funds, showing such funds and their investment. This statement is not literally a balance sheet, as certain liabilities are deducted from the assets to preserve the arrangement, but it appears that no harm can ensue from using the commonly accepted title. It is regarded as proper to use the term "fund" to denote a liability of such an association or institution.

Form 8 is a balance sheet by departments, a brewing company having been selected as an illustration. This statement exemplifies the columnar arrangement, where it is necessary to draw a line under each total or major item, except in the comparatively rare case exhibited under Liabilities where there are no subordinate items below the total of current liabilities.

Form 9 is a typical balance sheet of a stock brokerage firm. An additional interesting feature is the statement of the partners' capital accounts.

Form 10 is a comparative balance sheet, vertical arrangement, in which the amounts for both dates are shown. The amounts for December 31, 1919, are those shown in Form 1.

Form 11 is a comparative balance sheet, lateral arrangement, in which the amounts for the prior date are not shown. The amounts for December 31, 1919, are those shown in Form 6, but the footnote is different.

Form 12 is a comparative balance sheet in which the amounts for both dates are shown in a six-column arrangement. This form is in use by many accountants, being preferred by them to the more compact form illustrated in Form 11, in which it is necessary to draw lines under the major items. While the extended form possesses the advantage of presenting an uninterrupted perpendicular view of the major items, the horizontal alignment of type intermittently spread over so much space, is not easily followed. In the opinion of the author, the compact form is generally more satisfactory.

Form 13 is a statement of financial condition, designed especially to furnish a banker with a statement of assets and liabilities in the form which it is thought will best suit his requirements and will, therefore, anticipate his computations. When appearing in an audit report, such a statement usually has a certificate appended. It may also furnish in a footnote other information, such as the amount of sales for the period.

Form 14 is the same as Form 13 with the addition of comparisons with a prior date, which are often appropriate as explaining relatively large items of merchandise, receivables, or current liabilities.

Form 15 is submitted as a suggestion of what may be done to present a general view of the affairs of a company in receivership.

FORM 1

THE BLANK COMPANY

BALANCE SHEET, DECEMBER 31, 1919

A S S E T S

CURRENT ASSETS:			
Cash,		$ 2,316.25	
Notes Receivable,		3,201.47	
Accounts Receivable:			
Customers,	$50,254.79		
Less Reserve for Losses,	1,116.04		
Net,	$49,138.75		
Others,	2,316.14	51,454.89	
United States Liberty Loan Bonds (Market Value),		4,438.62	
Accrued Interest Receivable,		210.50	
Merchandise Inventory (At Cost),		40,112.23	
Total Current Assets,			$101,733.96
PROPERTY:			
Land,		$10,000.00	
Building,		15,417.95	
Furniture and Fixtures,		2,000.00	
Automobiles, Horses, and Wagons,		3,250.45	
Total,		$30,668.40	
Less Reserve for Depreciation,		6,250.14	
Net Property,			24,418.26
DEFERRED CHARGES:			
Unexpired Insurance,		$ 234.79	
Taxes Paid in Advance,		125.14	
Total Deferred Charges,			359.93
TOTAL,			$126,512.15

L I A B I L I T I E S

CURRENT LIABILITIES:		
Notes Payable,	$15,000.00	
Accounts Payable,	25,661.19	
Accrued Taxes,	1,254.75	
Total Current Liabilities,		$ 41,915.94
RESERVE FOR CONTINGENCIES,		5,000.00
CAPITAL STOCK - AUTHORIZED AND OUTSTANDING, 500 SHARES OF $100.00 EACH,		50,000.00
SURPLUS, PER EXHIBIT "B",		29,596.21
TOTAL,		$126,512.15

EXHIBIT "A"

FORM 2

BLANK & COMPANY, INC.

BALANCE SHEET, DECEMBER 31, 1919

ASSETS

CURRENT ASSETS:			
Cash,		$ 27,391.21	
Accounts Receivable:			
Customers,		143,880.29	
Officers and Employees,		4,242.00	
Merchandise Inventory,		890.60	
Total Current Assets,			$176,404.10
NOTES RECEIVABLE COVERING SUBSCRIPTIONS FOR CAPITAL STOCK - DUE ON DEMAND AFTER DECEMBER 31, 1920,			11,000.00
RIGHT TO RECEIVE 375 SHARES OF CAPITAL STOCK OF A. B. COMPANY,			37,500.00
TREASURY STOCK - REMAINDER OF STOCK DONATED FOR SALE TO PROVIDE WORKING CAPITAL - 100 SHARES, AT ESTIMATED SALE VALUE,			5,000.00
FURNITURE AND FIXTURES,			865.24
DEFICIT:			
Profit and Loss Deficit, per Exhibit "B",		$ 53,425.71	
Less:			
Proceeds of Sales of Donated Stock,	$20,000.00		
Valuation of Unsold Donated Stock,	5,000.00	25,000.00	
Net Deficit,			28,425.71
TOTAL,			$259,195.05

LIABILITIES

CURRENT LIABILITIES:		
Trade Acceptance Payable,	$ 2,618.88	
Accounts Payable,	156,509.17	
Accrued Wages,	67.00	
Total Current Liabilities,		$159,195.05
CAPITAL STOCK - AUTHORIZED AND ISSUED, 1,000 SHARES OF $100.00 EACH,		100,000.00
TOTAL,		$259,195.05

EXHIBIT "A"

FORM 3

JOHN DOE

BALANCE SHEET, DECEMBER 31, 1919

A S S E T S

CASH,		$ 2,316.05
ACCOUNTS RECEIVABLE - CUSTOMERS,		4,617.52
ADVANCES TO EMPLOYEES,		125.00
LIBERTY LOAN BONDS (Par Value),		2,000.00
MERCHANDISE INVENTORY,		27,319.50
STORE SUPPLIES,		852.14
STORE AND OFFICE EQUIPMENT,		1,525.00
DELIVERY EQUIPMENT,		2,097.53
UNEXPIRED INSURANCE,		212.05
TOTAL,		$41,064.79

L I A B I L I T I E S

NOTES PAYABLE,		$ 5,000.00
ACCOUNTS PAYABLE,		3,812.94
CAPITAL:		
Balance, January 1, 1919,	$26,247.11	
Net Income for the year, per Exhibit "B",	13,619.96	
Total,	$39,867.07	
Less Withdrawals (Including Salary),	7,615.22	32,251.85
TOTAL,		$41,064.79

EXHIBIT "A"

FORM 4

THE BLANK COMPANY

CONDENSED BALANCE SHEET, DECEMBER 31, 1919

ASSETS

CURRENT ASSETS:			
Cash,		$ 526,043.51	
United States Treasury Certificates of Indebtedness, Due March 15, 1920,		100,000.00	
Bills Receivable,		73,974.68	
Accounts Receivable:			
Foreign,	$1,832,930.72		
Domestic,	692,527.49	2,525,458.21	
Agencies' Balances - Net,		2,154,809.98	
Merchandise,		1,917,007.82	
Total Current Assets,			$7,297,294.20
INVESTMENT SECURITIES,			195,854.84
EXPENDITURES APPLICABLE TO FUTURE OPERATIONS,			74,196.71
GOOD-WILL,			300,000.00
TOTAL,			$7,867,345.75

LIABILITIES

CURRENT LIABILITIES:			
Accepted Drafts,		$ 530,537.08	
Bills Payable,		675,000.00	
Accounts Payable,		1,530,589.21	
Dividends Payable,		69,382.60	
Reserve for Taxes (Company's Estimate),		650,000.00	
Total Current Liabilities,			$3,455,508.89
DEFERRED CREDITS,			142,317.81
RESERVE FOR CONTINGENCIES,			125,000.00
CAPITAL STOCK:			
Preferred - Issued (15,000 Shares),	$1,500,000.00		
Less Held in Treasury,	32,500.00	$1,467,500.00	
Common - Issued (15,000 Shares),	$1,500,000.00		
Less Held in Treasury,	174,100.00	1,325,900.00	
Total Capital Stock,			2,793,400.00
SURPLUS,			1,351,119.05
TOTAL,			$7,867,345.75

NOTE: Contingent liabilities on account of drafts and bills negotiated under bankers' credits against shipments of merchandise amount to approximately $4,550,000.00.

FORM 5

THE BLANK TRADING COMPANY

CHICAGO BRANCH

BALANCE SHEET, DECEMBER 31, 1919

ASSETS

CURRENT ASSETS:			
Cash,		$ 35,490.75	
Notes Receivable,		16,884.51	
Accounts Receivable:			
Customers,	$246,293.72		
Others,	1,388.38	247,682.10	
Merchandise Inventory, as Taken and Valued by the Company,		384,784.30	
Consigned Merchandise, at Sales Prices,		21,782.80	
Total Current Assets,			$706,624.46
FURNITURE AND FIXTURES,			5,748.92
DEFERRED CHARGES:			
Advances for Traveling Expenses,		$ 450.00	
Deposits on Account of Rent and Electric Current,		1,497.23	
Doubtful Accounts Receivable,		2,607.27	
Prepaid Insurance and Taxes,		730.99	
Total Deferred Charges,			5,285.49
TOTAL,			$717,658.87

LIABILITIES

CURRENT LIABILITIES:			
Customers' Credit Balances,	$ 2,201.47		
Sundry Accounts Payable,	3,561.71		
Total Current Liabilities,			$ 5,763.18
THE BLANK TRADING COMPANY, NEW YORK:			
Investment Account,	$574,922.04		
Current Account,	135,994.72		710,916.76
DEFERRED CREDITS,			978.93
TOTAL,			$717,658.87

FORM 6

THE BLANK COMPANY

BALANCE SHEET, DECEMBER 31, 1919

ASSETS

PROPERTY, LESS DEPRECIATION - Schedule #1,			$ 462,834.47
GOOD-WILL, PATENTS, AND TRADE-MARKS,			250,000.00
INVESTMENT IN SUBSIDIARY COMPANY*:			
Capital Stock - 1,000 Shares of $100.00 each,		$136,237.73	
Advances,		50,000.00	
Total Investment in Subsidiary Company,			186,237.73
SINKING FUND FOR REDEMPTION OF BONDS - CASH AND ACCRUED INTEREST (Bonds Deducted from Liability, per Contra),			4,962.94
CURRENT ASSETS:			
Cash - Current Funds,		$ 97,526.06	
Cash on Deposit to Pay Interest and Dividends,		12,324.97	
Salesmen's Working Funds,		3,422.95	
Trade Notes and Acceptances Receivable,		143,212.57	
Accounts Receivable:			
Trade Debtors,	$261,404.06		
Less Reserves:			
Discounts, $13,386.31			
Doubtful Accounts, 10,326.42	23,712.73	237,691.33	
Accounts Receivable - Officers and Employees,		34,778.67	
Marketable Securities - Schedule #2,		556,183.00	
Accrued Interest Receivable,		7,981.07	
Inventories:			
Finished Goods,	$205,042.36		
Work in Process,	102,193.14		
Materials and Supplies,	180,269.80	487,505.30	
Advances on Materials Purchased,		24,967.04	
Total Current Assets,			1,805,592.86
DEFERRED CHARGES:			
Unamortized Discount on Bonds,		$ 24,516.29	
Prepaid Insurance, Interest, and Taxes,		8,235.24	
Experimental Expenses,		16,294.08	
Total Deferred Charges,			49,045.61
TOTAL,			$2,558,673.71

LIABILITIES

PREFERRED CAPITAL STOCK, 8%, CUMULATIVE - AUTHORIZED, 3,000 SHARES OF $100.00 EACH; OUTSTANDING, 2,500 SHARES,			$ 250,000.00
COMMON CAPITAL STOCK - AUTHORIZED AND OUTSTANDING, 10,000 SHARES OF $100.00 EACH,			1,000,000.00
FIRST MORTGAGE, 6% BONDS, DUE 1934:			
Issued,		$500,000.00	
Less:			
In Sinking Fund,	$ 50,000.00		
In Treasury - Pledged to Secure Notes Payable,	175,000.00	225,000.00	
Outstanding,			275,000.00
CURRENT LIABILITIES:			
Notes Payable - Loans,		$100,000.00	
Trade Acceptances Payable,		180,776.64	
Accounts Payable,		248,729.57	
Interest and Dividends Payable,		12,324.97	
Accrued Accounts:			
Income and Excess Profits Taxes (Estimated),		40,000.00	
Wages,		13,069.17	
Interest,		3,762.43	
Total Current Liabilities,			608,662.78
DEFERRED CREDIT - FIRE INSURANCE SUSPENSE,			5,491.84
RESERVES:			
Injuries and Damages,		$ 8,250.27	
Contingencies,		25,000.00	
Total Reserves,			33,250.27
SURPLUS FROM REVALUATION OF GOOD-WILL, PATENTS, AND TRADE-MARKS,			200,000.00
PROFIT AND LOSS SURPLUS:			
Balance, January 1, 1919,		$ 85,743.68	
Surplus for the Year,		220,525.34	
Total,		$306,269.02	
Less Dividends,		120,000.00	
Balance, December 31, 1919,			186,269.02
TOTAL,			$2,558,673.71

* Should be named.

NOTE: The Company has contingent liabilities of $108,326.73 on account of notes and acceptances receivable discounted.

FORM 7

THE BLANK CHARITY ASSOCIATION

CONDENSED BALANCE SHEET, DECEMBER 31, 1919

ASSETS

INVESTMENT OF RESTRICTED CAPITAL FUNDS:			
Mortgages		$ 67,550.00	
Bonds		290,181.02	
Stocks		64,700.00	
Property - Land, Buildings, and Equipment		217,750.00	
Cash		12,610.92	
Total Investment of Restricted Capital Funds			$ 652,791.94
INVESTMENT OF UNRESTRICTED CAPITAL FUNDS:			
Mortgages		$ 7,545.00	
Bonds		57,355.00	
Due from Employees on Liberty Loan Bond Subscriptions		3,477.11	
Stocks		54,019.12	
Real Estate		109,368.85	
Cash		24,622.03	
Due from Social Welfare Fund		3,000.00	
Total Investment of Unrestricted Capital Funds			259,387.11
NET CURRENT ASSETS:			
Cash		$ 89,522.21	
Bonds		5,000.00	
Accounts Receivable		39,407.74	
Accrued Interest Receivable		5,347.99	
Supplies		4,932.30	
Unexpired Insurance		2,821.31	
Total		$147,031.55	
Less:			
Due to General Reserve Fund	$ 3,000.00		
Accounts Payable	20,785.93		
Accrued Interest Payable	116.67	23,902.60	
Total Net Current Assets			123,128.95
TOTAL			$1,035,308.00

LIABILITIES

RESTRICTED CAPITAL FUNDS:		
General Work	$196,982.91	
Fresh Air Work	440,059.03	
Blank Fund	15,750.00	
Total Restricted Capital Funds		$ 652,791.94
UNRESTRICTED CAPITAL FUNDS:		
General Reserve Fund	$195,518.25	
Fresh Air Reserve Fund	63,868.86	
Total Unrestricted Capital Funds		259,387.11
CURRENT FUNDS:		
General Fund	$ 46,616.59	
Fresh Air Fund	26,046.14	
Seashore Fund	32,584.70	
Social Welfare Fund	17,881.52	
Total Current Funds		123,128.95
TOTAL		$1,035,308.00

FORM 8

THE BLANK BREWING COMPANY

BALANCE SHEET, BY DEPARTMENTS, DECEMBER 31, 1919

-- A S S E T S --	TOTAL	ELIMINATIONS	BREWERY	ICE PLANT	BOTTLING DEPARTMENT
CURRENT ASSETS:					
Cash,	$ 95,765.27		$ 31,189.44	$ 40,486.08	$24,089.75
Notes Receivable - Schedule #1,	82,814.74		82,814.74		
Accounts Receivable:					
Customers,	168,218.18		161,752.83	5,694.50	770.85
Bottling Department - Beer Furnished,		$ 12,265.00	12,265.00		
Other,	920.50		920.50		
Inventories:					
Beer,	31,654.12		31,439.02		215.10
Materials and Supplies,	35,216.44		30,416.05	3,701.38	1,099.01
Accrued Accounts:					
Interest on Notes Receivable,	5,723.35		5,723.35		
Interest and Dividends on Securities Owned,	2,433.38		2,433.38		
Rentals,	2,701.80		2,701.80		
Total Current Assets,	$ 425,447.78	$ 12,265.00	$ 361,656.11	$ 49,881.96	$26,174.71
INVESTMENTS:					
Real Estate and Improvements - Schedule #2,	$ 792,464.49		$ 792,464.49		
Less Reserve for Depreciation,	168,570.81		168,570.81		
Net Book Value,	$ 623,893.68		$ 623,893.68		
Securities - Schedule #3,	190,043.33		190,043.33		
Net Investments,	$ 813,937.01		$ 813,937.01		
PROPERTY:					
Real Estate and Improvements,	$ 328,316.44		$ 193,859.13	$ 97,527.75	$36,929.56
Machinery and Equipment,	286,387.90		169,279.64	108,570.49	8,537.77
Horses, Wagons, and Harness - Inventory,	11,783.00		10,179.00		1,604.00
Cooperage - Inventory,	12,519.23		12,519.23		
Boxes and Bottles - Inventory,	10,458.98				10,458.98
Office Furniture and Fixtures,	1,834.69		1,520.38	242.71	71.60
Total,	$ 651,300.24		$ 387,357.38	$206,340.95	$57,601.91
Less Reserves for Depreciation:					
Real Estate and Improvements,	$ 127,832.35		$ 98,518.93	$ 10,560.27	$18,753.15
Machinery and Equipment,	157,513.34		116,008.01	34,092.23	7,413.10
Office Furniture and Fixtures,	747.18		747.18		
Total,	$ 286,092.87		$ 215,274.12	$ 44,652.50	$26,166.25
Net Property,	$ 365,207.37		$ 172,083.26	$161,688.45	$31,435.66
PREPAID INSURANCE AND LICENSES,	$ 1,328.75		$ 1,312.65		$ 16.10
INVESTMENT IN ICE PLANT,		$211,142.73	$ 211,142.73		
INVESTMENT IN BOTTLING DEPARTMENT,		$ 45,225.77	$ 45,225.77		
TOTAL,	$1,605,920.91	$268,633.50	$1,605,357.53	$211,570.41	$57,626.47

EXHIBIT "A"

(Continued) - 1.

FORM 8
THE BLANK BREWING COMPANY
BALANCE SHEET, ETC.

-- L I A B I L I T I E S --	TOTAL	ELIMINATIONS	BREWERY	ICE PLANT	BOTTLING DEPARTMENT
CURRENT LIABILITIES:					
Accounts Payable,	$ 3,475.98		$ 3,379.74	$ 45.84	$ 50.40
Brewery – Beer Furnished,		$ 12,265.00			12,265.00
Accrued Accounts:					
Salaries and Wages,	1,024.65		841.14	183.51	
Taxes,	2,800.20		2,401.87	198.33	
Allowances,	1,773.56		1,688.26		85.30
Interest,	368.78		368.78		
Total Current Liabilities,	$ 9,243.17	$ 12,265.00	$ 8,679.79	$ 427.68	$12,400.70
MORTGAGES ON REAL ESTATE - Schedule #4,	39,500.00		39,500.00		
RENTALS RECEIVED IN ADVANCE,	343.77		343.77		
BREWERY - INVESTMENT ACCOUNTS,		256,368.50		211,142.73	45,225.77
CAPITAL STOCK - 5,000 SHARES OF $100.00 EACH,	500,000.00		500,000.00		
SURPLUS, PER EXHIBIT "B",	1,056,833.97		1,056,833.97		
TOTAL,	$1,605,920.91	$268,633.50	$1,605,357.53	$211,570.41	$57,626.47

NOTE: No provision has been made for Federal Income and Excess Profits Taxes for the year ended December 31, 1919.

FORM 9

JOHN DOE & COMPANY

BALANCE SHEET AT CLOSE OF BUSINESS, DECEMBER 31, 1919

ASSETS

CASH ON DEPOSIT,		$ 41,421.76
CASH ON HAND,		455.14
FEDERAL AND STATE TAX STAMPS,		893.14
SECURITIES BORROWED,		180,400.00
SECURITIES SOLD AND UNDELIVERED,		110,535.90
CUSTOMERS' DEBIT BALANCES - SECURED,		2,018,245.67
CUSTOMERS' DEBIT BALANCES - UNSECURED,		17,857.51
BROKERS' LONG ACCOUNTS,		674,962.24
COMMISSIONS RECEIVABLE,		1,039.75
SECURITIES OWNED,		120,456.29
SYNDICATE PARTICIPATIONS,		84,327.12
EXCHANGE MEMBERSHIPS,		75,000.00
FURNITURE AND FIXTURES,		1,725.00
PARTNERS' TRADING ACCOUNTS:		
John Doe,	$23,385.21	
Richard Roe,	34,540.13	57,925.34
TOTAL,		$3,385,244.86

LIABILITIES

LOANS PAYABLE,		$2,300,000.00
SECURITIES LOANED,		146,500.00
SECURITIES BOUGHT AND NOT RECEIVED,		47,365.00
SECURITIES SHORT,		11,337.50
CUSTOMERS' CREDIT BALANCES,		68,963.65
CUSTOMERS' SHORT BALANCES,		227,447.47
BROKERS' SHORT ACCOUNTS,		102,680.00
ACCRUED INTEREST PAYABLE,		8,816.36
DIVIDENDS PAYABLE - NET,		4,326.37
CAPITAL:		
Investment Accounts:		
John Doe,	$300,000.00	
Richard Roe,	100,000.00	
Undivided Profits,	72,916.57	
Total,	$472,916.57	
Less Personal Account, John Doe,	5,108.06	467,808.51
TOTAL,		$3,385,244.86

FORM 10

THE BLANK COMPANY

BALANCE SHEET, DECEMBER 31, 1919 and 1918, AND COMPARISON

	.......DECEMBER 31, 1919	 1918	INCREASE *DECREASE
ASSETS			
CURRENT ASSETS:			
Cash,....................................	$ 2,316.25	$ 1,568.47	$ 747.78
Notes Receivable,........................	3,201.47	4,013.01	* 811.54
Accounts Receivable:			
Customers, Less Reserve for Losses (1919, $1,116.04; 1918, $500.00),...............	49,138.75	42,517.96	6,620.79
Others,..................................	2,316.14	1,060.00	1,256.14
United States Liberty Loan Bonds (Market Value, 1919; Par Value, 1918),...................	4,438.62	2,000.00	2,438.62
Accrued Interest Receivable,.............	210.50	156.47	54.03
Merchandise Inventory (At Cost),.........	40,112.23	32,550.29	7,561.94
Total Current Assets,.......	$101,733.96	$ 83,866.20	$17,867.76
PROPERTY:			
Land,....................................	$ 10,000.00	$ 10,000.00	
Building,................................	15,417.95	15,016.49	$ 401.46
Furniture and Fixtures,..................	2,000.00	1,924.25	75.75
Automobiles, Horses, and Wagons,.........	3,250.45	2,116.92	1,133.53
Total,..........................	$ 30,668.40	$ 29,057.66	$ 1,610.74
Less Reserve for Depreciation,...........	6,250.14	4,219.27	2,030.87
Net Property,...............	$ 24,418.26	$ 24,838.39	*$ 420.13
DEFERRED CHARGES:			
Unexpired Insurance,.....................	$ 234.79	$ 167.14	$ 67.65
Taxes Paid in Advance,...................	125.14	112.01	13.13
Interest Paid in Advance,................		196.50	* 196.50
Total Deferred Charges,.....	$ 359.93	$ 475.65	*$ 115.72
TOTAL,............	$126,512.15	$109,180.24	$17,331.91
LIABILITIES			
CURRENT LIABILITIES:			
Notes Payable,...........................	$ 15,000.00	$ 20,000.00	*$ 5,000.00
Accounts Payable,........................	25,661.19	23,516.29	2,144.90
Accrued Taxes,...........................	1,254.75	514.68	740.07
Total Current Liabilities,..	$ 41,915.94	$ 44,030.97	*$ 2,115.03
RESERVE FOR CONTINGENCIES,................	5,000.00		5,000.00
CAPITAL STOCK (Shares $100.00 Each),......	50,000.00	45,000.00	5,000.00
SURPLUS, PER EXHIBIT "B",.................	29,596.21	20,149.27	9,446.94
TOTAL,............	$126,512.15	$109,180.24	$17,331.91

* Typed in Red.

EXHIBIT "A"

FORM 11

THE BLANK COMPANY

BALANCE SHEET, DECEMBER 31, 1919, AND COMPARISON WITH DECEMBER 31, 1918

-- A S S E T S --	DECEMBER 31, 1919	INCREASE *DECREASE
PROPERTY, LESS RESERVES FOR DEPRECIATION -		
Schedule #1,	$ 462,834.47	$ 34,783.54
GOOD-WILL, PATENTS, AND TRADE-MARKS,	$ 250,000.00	
INVESTMENT IN SUBSIDIARY COMPANY:**		
Capital Stock - 1,000 Shares of $100.00 Each,	$ 136,237.73	
Advances,	50,000.00	$ 10,000.00
Total Investment in Subsidiary Company,	$ 186,237.73	$ 10,000.00
SINKING FUND CASH AND ACCRUED INTEREST,	$ 4,962.94	*$ 2,364.96
CURRENT ASSETS:		
Cash - Current Funds,	$ 97,526.06	$ 28,542.44
Cash on Deposit to Pay Interest and Dividends,	12,324.97	376.01
Salesmen's Working Funds,	3,422.95	222.95
Notes and Acceptances Receivable,	143,212.57	24,142.07
Accounts Receivable - Trade Debtors (Less Reserves for Discounts, $13,386.31, and for Doubtful Accounts, $10,328.42),	237,691.33	19,122.47
Accounts Receivable - Officers and Employees,	34,778.87	*5,620.34
Marketable Securities - Schedule #2,	558,183.00	10,500.00
Accrued Interest Receivable,	7,981.07	1,054.23
Inventories:		
Finished Goods,	205,042.36	67,505.22
Work in Process,	102,193.14	20,114.95
Materials and Supplies,	180,269.80	45,327.56
Advances on Materials Purchased,	24,967.04	24,967.04
Total Current Assets,	$1,605,592.96	$238,254.60
DEFERRED CHARGES:		
Unamortized Discount on Bonds,	$ 24,516.28	$ 1,519.12
Prepaid Insurance, Interest, and Taxes,	8,235.24	792.05
Experimental Expenses,	16,294.08	12,150.43
Total Deferred Charges,	$ 49,045.61	$ 14,461.60
TOTAL,	$2,558,673.71	$293,134.78

-- L I A B I L I T I E S --	DECEMBER 31, 1919	INCREASE *DECREASE
PREFERRED CAPITAL STOCK - 8%, CUMULATIVE (Authorized, 3,000 Shares of $100.00 Each; Outstanding, 2,500 Shares),	$ 250,000.00	
COMMON CAPITAL STOCK (Authorized and Outstanding, 10,000 Shares of $100.00 Each),	$1,000,000.00	
FIRST MORTGAGE, 6% BONDS, DUE 1934:		
Issued,	$ 500,000.00	
Less:		
In Sinking Fund,	$ 50,000.00	$ 7,000.00
In Treasury - Pledged to Secure Notes Payable,	175,000.00	
Total,	$ 225,000.00	$ 7,000.00
Outstanding,	$ 275,000.00	*$ 7,000.00
CURRENT LIABILITIES:		
Notes Payable - Loans,	$ 100,000.00	*$ 25,000.00
Trade Acceptances Payable,	190,776.64	75,122.68
Accounts Payable,	248,729.57	107,250.74
Interest and Dividends Payable,	12,324.97	376.01
Accrued Accounts:		
Income and Excess Profits Taxes (Estimated),	40,000.00	25,000.00
Wages,	13,069.17	1,201.92
Interest,	3,762.43	*576.22
Total Current Liabilities,	$ 608,662.78	$183,375.13
DEFERRED CREDIT - FIRE INSURANCE SUSPENSE,	$ 5,491.64	$ 5,491.64
RESERVES:		
Injuries and Damages,	$ 8,250.27	$ 742.67
Contingencies,	25,000.00	10,000.00
Total Reserves,	$ 33,250.27	$ 10,742.67
SURPLUS FROM REVALUATION OF GOOD-WILL, PATENTS, AND TRADE-MARKS,	$ 200,000.00	
PROFIT AND LOSS SURPLUS:		
Balance at Beginning of the Year,	$ 85,743.68	$ 35,617.73
Surplus for the Year,	220,525.34	114,907.61
Total,	$ 306,269.02	$150,525.34
Less Dividends,	120,000.00	50,000.00
Balance at End of the Year,	$ 186,269.02	$100,525.34
TOTAL,	$2,558,673.71	$293,134.78

* Typed in Red.
** Should be Named.

NOTE: The Company has Undetermined Liabilities on Account of Unreported Drafts Drawn by its European Agent for Purchases of Merchandise Under Letters of Credit, the Unused Balances of Which Aggregate $100,000.00.

FORM 12

THE BLANK POWER COMPANY

BALANCE SHEET, DECEMBER 31, 1919 AND 1918, AND COMPARISON

-- A S S E T S --	DECEMBER 31, 1919		DECEMBER 31, 1918		INCREASE OR *DECREASE	
PROPERTY AND PLANT - Schedule #1,		$16,789,779.12		$16,739,651.31		$ 49,927.81
INVESTMENTS - A. & B. COMPANY:						
Capital Stock,	$ 60,000.00		$ 60,000.00			
First Mortgage Bonds,	20,000.00				$ 20,000.00	
Total Investments - A. & B. Company,		80,000.00		60,000.00		20,000.00
WORKING ASSETS:						
Materials and Supplies,	$ 187,142.13		$ 292,527.97		*$ 105,385.84	
Advances to Right-of-way Agents and Field Employees,	6,395.57		5,851.66		543.71	
Prepaid Expenses:						
Insurance,	8,387.41		8,138.51		248.90	
Interest,	14,521.53		7,460.10		7,061.43	
Taxes,	12,223.92		12,584.50		* 360.58	
Total Working Assets,		228,670.56		326,562.94		* 97,892.38
SPECIAL DEPOSITS WITH TRUSTEES:						
Guaranty Trust Company, New York:						
Sinking Fund Cash,	$ 382.48		$ 20.50		$ 361.98	
Cash Available for Construction,	16,618.41		15,647.26		771.15	
Equitable Trust Company, New York - Trust Funds,			21,592.36		* 21,592.36	
Total Special Deposits with Trustees		17,000.89		37,460.12		* 20,459.23
CURRENT ASSETS:						
Cash - General,	$ 181,672.59		$ 30,373.03		$ 131,299.56	
Cash on Deposit for Payment of Matured Funded Debt and Interest,	18,355.00		29,820.00		* 11,465.00	
Notes Receivable,	224,100.00		800.00		223,300.00	
Accounts Receivable - Consumers,	248,542.10		312,127.85		* 63,585.75	
Accounts Receivable - General,	149,631.14		115,076.68		34,554.46	
United States Liberty Loan Bonds, Less Collections on Subscriptions by Employees,	47,046.20		52,696.37		* 5,650.17	
Accrued Interest on Sinking Fund Securities,	14,464.90		11,018.05		3,446.85	
Total Current Assets,		863,811.93		551,911.98		311,899.95
DEFERRED DEBIT ITEMS:						
Unamortized Debt Discount and Expense,	$ 900,093.36		$ 713,673.18		$ 186,420.18	
Unamortized Depreciation of Power Plant,	11,100.00		19,500.00		* 8,400.00	
Miscellaneous,	17,002.74		10,920.85		6,081.89	
Total Deferred Debit Items,		928,196.10		744,094.03		184,102.07
TOTAL,		$18,907,458.60		$18,459,880.38		$447,578.22

* Typed in red.

(Continued) - 1.

FORM 12
THE BLANK POWER COMPANY
BALANCE SHEET, ETC.

-- LIABILITIES --	DECEMBER 31, 1919		DECEMBER 31, 1918		INCREASE OR *DECREASE	
CAPITAL STOCK:						
First Preferred, 6%, Cumulative - 25,000 Shares of $100.00 each,	$2,500,000.00		$2,500,000.00			
Second Preferred, 6% Non-cumulative - 20,000 Shares of $100.00 each,	2,000,000.00		2,000,000.00			
Common - 12,500 Shares of $100.00 each,	1,250,000.00		1,250,000.00			
Total Capital Stock,		$ 5,750,000.00		$ 5,750,000.00		
FUNDED DEBT:						
First Mortgage, 5%, Gold Bonds, Due 1943,	$5,000,000.00		$5,000,000.00			
Less Held in Sinking Fund,	1,113,000.00		933,000.00		$ 180,000.00	
Outstanding,	$3,887,000.00		$4,067,000.00		*$ 180,000.00	
**Underlying Company First Mortgage, 5% Bonds, Due 1950,	$5,000,000.00		$5,000,000.00			
Less Held in Sinking Fund,	227,000.00		162,000.00		$ 65,000.00	
Outstanding,	$4,773,000.00		$4,838,000.00		*$ 65,000.00	
Refunding Mortgage, 6%, Sinking Fund, Gold Bonds, Due 1958,	$2,000,000.00		$2,000,000.00			
Less Held by Trustee to Secure Two-year, Gold Notes,			2,000,000.00		*$2,000,000.00	
Outstanding,	$2,000,000.00		Nil		$2,000,000.00	
Two-year, 6%, Convertible, Gold Notes, Due 1919,			$1,000,000.00		*$1,000,000.00	
Total Funded Debt,		10,660,000.00		9,905,000.00		$755,000.00
CONTRACT OF PURCHASE - STEAM PLANT (Payable at the Rate of $15,000.00 Per Annum),		144,075.00		159,075.00		* 15,000.00
CURRENT LIABILITIES:						
Notes Payable,	$ 826,200.00		$ 735,884.56		$ 90,315.44	
Accounts Payable,	221,721.67		481,372.84		* 259,651.17	
Matured Two-year, 6%, Gold Notes,	3,000.00				3,000.00	
Matured Interest on Funded Debt,	15,355.00		29,820.00		* 14,465.00	
Accrued Interest,	197,224.17		171,736.64		25,487.53	
Accrued Taxes,	39,152.51		34,614.17		4,538.34	
Total Current Liabilities,		1,302,653.35		1,453,423.21		* 150,774.86
DEFERRED CREDIT ITEMS:						
Unearned Land Rentals,	$ 4,654.31		$ 3,090.65		$ 1,563.66	
Unexpended Portion of Insurance Received,	11,300.04		36,365.34		* 25,065.30	
Total Deferred Credit Items,		15,954.35		39,455.99		* 23,501.64
RESERVES:						
Depreciation,	$ 351,328.83		$ 265,553.33		$ 85,775.50	
Injuries and Damages,	4,848.00		2,103.93		2,744.07	
Legal Expenses,	4,597.19		5,319.55		* 722.36	
Doubtful Accounts,	18,925.10		18,575.02		350.08	
Total Reserves,		379,699.12		291,551.83		88,147.29
SURPLUS,		655,076.78		861,369.35		* 206,292.57
TOTAL,		$18,907,458.60		$18,459,880.38		$447,578.22

* Typed in red.
** Should be named.

NOTE: The Company has a contingent liability as guarantor of principal and interest on $500,000.00 First Mortgage, 6% Bonds of A. & B. Company, $480,000.00 of which are held by the public.

(Concluded) - 2.

FORM 13

THE BLANK MANUFACTURING COMPANY

STATEMENT OF FINANCIAL CONDITION, DECEMBER 31, 1919

CURRENT ASSETS:			
Cash,			$ 57,860.21
Trade Notes and Acceptances Receivable,			81,239.44
Customers' Accounts (Less Reserve for Losses),			216,115.42
Other Accounts Receivable and Accrued Interest,			10,812.53
United States Liberty Loan Bonds and War Savings Certificates (at Market Value),			74,492.00
Inventories (at Cost):			
Finished Goods,		$ 294,312.01	
Work in Process,		116,139.15	
Materials and Supplies,		145,487.48	555,938.64
Total Current Assets,			$ 996,458.24
CURRENT LIABILITIES:			
Notes Payable - Loans,		$ 175,000.00	
Trade Acceptances Payable,		96,214.09	
Accounts Payable,		255,498.96	
Accrued Income and Excess Profits Taxes,		48,127.25	
Accrued Interest, Etc.,		3,510.23	
Total Current Liabilities,			578,350.53
NET CURRENT ASSETS,			$ 418,107.71
INVESTMENTS IN CAPITAL STOCKS OF OTHER COMPANIES,			74,516.92
PROPERTY,		$ 714,189.56	
Less:			
Mortgage, Due 1926,	$250,000.00		
Reserves for Depreciation,	149,648.05	399,648.05	314,541.51
NET TANGIBLE ASSETS,			$ 807,166.14
PATENTS, TRADE-MARKS, AND GOOD-WILL (Less Reserve for Amortization)			843,487.48
EXPENDITURES APPLICABLE TO FUTURE OPERATIONS,			13,619.39
TOTAL NET ASSETS - SHAREHOLDERS' CAPITAL,			$1,664,273.01
REPRESENTED BY:			
Preferred Capital Stock, 7% Cumulative - 3,000 Shares, Less in Treasury, 167 Shares,		$ 283,300.00	
Common Capital Stock - 10,000 Shares,		1,000,000.00	
Surplus:			
Balance, January 1, 1919,	$290,449.42		
Surplus for the Year,	* 210,354.59		
Total,	$500,804.01		
Less Dividends During the Year,	119,831.00	380,973.01	$1,664,273.01

* After Charging Federal Taxes for Both of the Years 1918 and 1919.

FORM 14

THE BLANK MANUFACTURING COMPANY

STATEMENT OF FINANCIAL CONDITION, DECEMBER 31, 1919, AND COMPARISON WITH DECEMBER 31, 1918

	DECEMBER 31, 1919	INCREASE *DECREASE
CURRENT ASSETS:		
Cash,	$ 57,860.21	$ 16,321.98
Trade Notes and Acceptances Receivable,	81,239.44	64,017.16
Customers' Accounts (Less Reserve for Losses),	216,115.42	59,689.43
Other Accounts Receivable and Accrued Interest,	10,812.53	1,216.00
United States Liberty Loan Bonds and War Savings Certificates (at Market Value),	74,492.00	10,456.12
Finished Goods (at Cost, 1919; at Cost Less 10%, 1918),	294,312.01	112,144.56
Work in Process (at Cost),	116,139.15	30,215.95
Materials and Supplies (at Cost),	145,487.48	37,512.01
Total Current Assets,	$ 996,458.24	$331,573.21
CURRENT LIABILITIES:		
Notes Payable - Loans,	$ 175,000.00	$100,000.00
Trade Notes and Acceptances Payable,	(a) 96,214.09	* 13,129.14
Accounts Payable,	255,498.96	97,009.54
Accrued Federal Taxes,	48,127.25	48,127.25
Accrued Interest, Etc.,	3,510.23	926.54
Total Current Liabilities,	$ 578,350.53	$232,934.19
NET CURRENT ASSETS,	$ 418,107.71	$ 98,639.02
INVESTMENTS IN CAPITAL STOCKS OF OTHER COMPANIES,	74,516.92	
PROPERTY (Less Mortgage, Due 1926, $250,000.00, and Reserves for Depreciation),	314,541.51	* 7,416.12
NET TANGIBLE ASSETS,	$ 807,166.14	$ 91,222.90
PATENTS, TRADE-MARKS, AND GOOD-WILL (Less Reserve for Amortization),	843,487.48	* 7,500.00
EXPENDITURES APPLICABLE TO FUTURE OPERATIONS,	13,619.39	3,500.69
TOTAL NET ASSETS - SHAREHOLDERS' CAPITAL,	$1,664,273.01	$ 87,223.59
REPRESENTED BY:		
Preferred Capital Stock, 7% Cumulative - 3,000 Shares, Less Treasury Stock (167 Shares, 1919; 134 Shares, 1918),	$ 283,300.00	*$ 3,300.00
Common Capital Stock - 10,000 Shares,	$1,000,000.00	
Surplus:		
Balance at Beginning of the Year,	$ 290,449.42	$ 14,650.22
Surplus for the Year,	(b) 210,354.59	75,642.37
Total,	$ 500,804.01	$ 90,292.59
Less Dividends During the Year,	119,831.00	* 231.00
Balance at End of the Year,	$ 380,973.01	$ 90,523.59
TOTAL,	$1,664,273.01	$ 87,223.59

* Typed in red.
(a) All acceptances in 1919.
(b) After charging Federal taxes for both of the years 1918 and 1919.

FORM 15

NORTH & SOUTH RAILROAD
JOHN DOE, RECEIVER

STATEMENT OF FINANCIAL CONDITION, DECEMBER 31, 1919,
CONSOLIDATING THE ACCOUNTS OF THE RECEIVER AND THE CORPORATION

ASSETS

CURRENT ASSETS:		
Cash,	$ 52,831.43	
Loans and Bills Receivable,	76,569.04	
Net Balance Receivable from Agents and Conductors,	34,751.90	
Sundry Debtors,	28,550.00	
Materials and Supplies,	54,814.28	$ 247,516.65
DEFERRED ASSETS:		
Working Fund Advances,	$ 500.00	
Sundry Items,	3,429.49	3,929.49
UNADJUSTED DEBITS,		40,209.03
EQUIPMENT SUBJECT TO SPECIFIC LIENS,	$ 159,010.00	
Less Accrued Depreciation,	52,076.55	106,933.45
ROAD AND EQUIPMENT SUBJECT TO UNDERLYING BONDS AND GENERAL LIENS,	$5,673,342.17	
Less Accrued Depreciation,	112,936.60	5,560,405.57
TOTAL,		$5,958,994.19

LIABILITIES

CURRENT LIABILITIES INCURRED BY THE RECEIVER:			
Loans and Bills Payable,		$ 232,043.86	
Traffic and Car-Service Balances Payable,		9,824.61	
Sundry Creditors,		97,167.25	
Matured Interest Unpaid,		5,000.00	
Accrued Interest,		8,977.31	
Accrued Taxes,		6,780.24	$ 359,773.27
EQUIPMENT NOTES,			52,643.59
UNDERLYING, 5%, GOLD BONDS,			200,000.00
GENERAL CREDITORS, PRIOR TO RECEIVERSHIP:			
Loans and Bills Payable,		$ 438,245.80	
Interest,		112,235.24	
Sundry Creditors,		31,901.04	582,382.08
FUNDED DEBT SUBORDINATED TO CLAIMS OF GENERAL CREDITORS, AND INTEREST THEREON:			
General Mortgage, 5%, Gold Bonds,		$2,500,000.00	
Matured Interest on General Mortgage Bonds,		452,550.00	
Unmatured Interest Accrued on General Mortgage Bonds,		12,916.68	2,965,466.68
UNADJUSTED CREDITS,			11,705.03
RESIDUE OF THE ESTATE:			
Amount of Estate at Appointment of Receiver:			
Capital Stock,	$3,000,000.00		
Less Profit and Loss Deficit	706,132.52	$2,293,867.48	
Less:			
Deficit from Receiver's Operations (Subject to any amounts representing losses or gains on the original estate which may be included)	$ 89,118.12		
Interest Accrued on General Mortgage Bonds during Receivership,	417,725.62	506,643.94	1,787,023.54
TOTAL,			$5,958,994.19

CHAPTER III

INCOME AND PROFIT AND LOSS STATEMENTS

Statements of operations are designated by various titles, such as: Statement of Income and Profit and Loss; Summary of Income and Profit and Loss; Statement of Income; Statement of Profit and Loss; Income Account; Profit and Loss Account; Statement of Income and Capital Account; Statement of Revenue and Expenses; Statement of Income and Expenses; Statement of Earnings and Expenses; and Statement of Operations. Several of these, and perhaps others, are accepted as good usage by prominent accountants. The choice depends to some extent upon what the statement embraces. Statements of manufacturing and trading businesses usually show all operations, including changes in the surplus, and are perhaps generally entitled "Statement of Income and Profit and Loss." If a similar statement is somewhat condensed, that is, shows only the totals of some major groups, it may appropriately be termed "Summary (or Condensed Statement) of Income and Profit and Loss." If the statement ends at Net Income, it should be called a Statement of Income. It will usually be supplemented by a Statement of Profit and Loss. The title, "Statement of Income and Capital Account," is used when a statement of the Capital account is appended to a statement of income of a sole proprietorship or partnership. Such terms as Statement of Revenue and Expenses are applicable to other than commercial enterprises.

It is axiomatic that statements of income and profit and loss, however entitled, are <u>for a period</u>, and not <u>at a date</u>; yet many statements are seen headed somewhat as follows: "Statement of Income and Profit and Loss, December 31, 1919" - instead of, "For the year ended December 31, 1919."

Statements should be so designed as to be readily understood by the layman. The "running" form of statement is generally considered clearer to the majority of people than the "account" form. The former is simply a series of additions and deductions, beginning with the gross sales or earnings and ending with the final balance of profit and loss; the latter exhibits the several sections of the statement in the form of ledger accounts, bringing down the respective balances in bookkeeping fashion. The "running" form has been adopted by most of the prominent accountants, and is the only one treated in this work.

In the practice of representative accountants with respect to the preparation of statements of income and profit and loss for a particular kind of business there is little variation in the general form but considerable variation in the detailed treatment of many items. For example, depreciation, rent, insurance, and property taxes are treated variously as cost, general expenses, and income charges; uncollectible accounts as general expenses, income charges, profit and loss charges, and deductions from sales; income taxes as general expenses, income charges, and profit and loss charges; cash discounts as income items and deductions from sales or purchases;

shipping and delivery expenses as cost, selling expenses, and deductions from sales; and so on through the whole category.

These differences of treatment are largely questions of accounting theory, which are discussed in many good books and articles on the subject. Many of them are really debatable, so that an accountant cannot with good grace take a decided stand one way or another. Further, it is very often necessary, for practical purposes, for a professional accountant to prepare his report in accordance with the accounting system or published statements of his client. Unless there is some important issue involved it is often unwise, for example, to change the classification of cost accounts, thereby necessitating an adjustment of inventory values or destroying the co-ordination between the operating and balance sheet accounts. Also, it is often found that the accounts as kept do not furnish sufficient information for the preparation of theoretically correct statements, and it is impracticable to obtain the information by analysis. In short, it is very often necessary to sacrifice idealism to expediency.

Following is a skeleton form of statement of income and profit and loss of a manufacturing or trading corporation:

Gross Sales
Deductions from Sales
Net Sales
Cost of Goods Sold
Gross Profit
Selling Expenses
Selling Profit
General Expenses
Profit from Operations
Other Income Credits
Gross Income

Income Charges
Net Income
Surplus at beginning of the Period
Other Profit and Loss Credits
Gross Surplus
Profit and Loss Charges
Surplus at end of the Period

The latter part of the foregoing is predicated upon the assumption that this statement is intended to support one item in the balance sheet, viz., the surplus at the end of the period - which, in the opinion of the author, is generally desirable.

It will be noted that in the above arrangement the Profit and Loss Charges are applied to the accumulated Gross Surplus. It is equally proper in many cases, and preferable in some, to arrive at a surplus for the period, arranging the statement as follows:

Net Income
Other Profit and Loss Credits
Gross Surplus for the Period
Profit and Loss Charges
Surplus for the Period
Surplus at beginning of the Period
Surplus at end of the Period

This may well be done unless it results in showing a deficit for the period, due to dividends exceeding net credits. Some companies are particular about declaring dividends only from the earnings of the period, and their views should, if known, be reflected in their statements. On the other hand, it seems logical in the majority of cases to apply most items of profit and loss credits and charges to accumulated surplus.

Further variations of the form of statement are shown later in this chapter.

As virtually all items entering into the Profit and Loss account of most commercial business concerns can be allocated to one of the general groups of charges or credits outlined in the foregoing, we shall proceed to show what items are usually embraced in each of these groups.

GROSS SALES

Under this head appears the gross business done - charges to customers or cash sales.

Under conditions different from the ordinary manufacturing and trading business, it is appropriate to use some term other than Gross Sales. For example, if, as a general practice, goods are shipped on approval, the gross charges to customers are better designated by some such term as "Shipments Billed"; if the billings represent completed contracts only, it is proper to use the term "Completed Contracts Billed," or if they represent the completed portion of contracts, it may be well to use the simple expression "Bills Rendered." Charges for services, as distinguished from commodities, are usually designated as Gross Earnings or Revenue.

If the business is departmentalized, and one department sells to another, in a statement relating to the business as a whole the interdepartmental charges and credits should be eliminated; if the statement is designed to show the operations of each department, the credits should be designated as transfers, not sales.

The sales may be classified on the statement, if desired, in accordance with the requirements in each particular case - by classes of goods, departments, wholesale and retail, etc.

Some companies, notably producers of cane sugar and cotton-seed oil, regard production instead of sales as their revenue or gross earnings. The result is the same if the inventories are properly valued, but it appears to be more logical to treat sales as the source of profits, deducting the inventory at the end of the period from cost instead of adding it to sales.

DEDUCTIONS FROM SALES

Deductions from sales are usually: returns, allowances, trade discounts, and freight and express outward. Mere corrections of billings should not be included in this group, but should be absorbed in Gross Sales.

Trade discounts are intended to include quantity discounts, i.e., discounts granted when a customer has purchased a certain quantity. In the opinion of the author, cash discounts allowed to customers are not properly treated as deductions from sales, but should be classified as Income Charges, in the same general category as interest. There are some so-called cash discounts, however, which are practically trade discounts. If the granting of the discount is conditional entirely upon settlement within a certain comparatively short time it is a cash discount; if the terms are such that

if settlement is not made within the specified time the discount will be allowed but interest will be charged, the discount is a trade discount.

It is argued by some that the giving of cash discounts is such a general custom that its practical effect is to reduce the sales prices. The author has no objection to the application of this principle if it is followed tc its logical conclusion, that is, if all discounts that might have been taken are deducted from sales, and if all discounts that have not been availed of by customers are credited to income. The same arguments may be urged against deducting cash discounts from purchases, with the additional objection that where a cost system, or perpetual inventory, is maintained, the reduction of invoice prices by the amounts of cash discounts resulted in awkward fractions in unit costs.

The theory underlying the deduction of freight and express outward from sales is that when such charges are prepaid or allowed to customers, they are usually added to the invoice or included in the price, more or less specifically. There is usually such a wide variation in the freight rates as between the several points in the territory covered that it is impossible to fix a uniform selling price which will include the cost of delivery to all points. In those comparatively rare cases where goods are sold delivered at a uniform price, it is proper to treat delivery charges as cost of goods sold.

In some classes of business, commissions paid are a direct deduction from sales, but in nearly all manufacturing and trading concerns it is better to treat them as selling expenses, deductible from gross profit.

Excise or revenue taxes based upon sales are deductible directly from sales.

NET SALES

This item is simply the result of applying the Deductions from Sales to Gross Sales. In many cases, where the deductions are inconsequential, the net sales may be the first item of the statement. In cases where it is desirable to use the term Shipments Billed, instead of Gross Sales, that is, where the goods returned have not all been actually sold, it is appropriate to designate this item as Sales, instead of Net Sales.

COST OF GOODS SOLD

For a mercantile business the cost of goods sold, or, as it is often called, cost of sales, comprises the inventory at the beginning, plus the purchases and freight thereon, less the inventory at the end. This may be shown in the statement in total only or in one of the following ways:

(1) Purchases (including freight)
Add decrease (or deduct increase) in inventory

(2) Inventory, January 1, 1919
Purchases
Freight

Total

Less Inventory, December 31, 1919

The choice of method should be governed by the expressed or implied wishes of the persons primarily interested as to the degree of detail to be presented in the report.

It may also be desirable to classify the cost, as well as the sales, by departments, etc.

As to a manufacturing business, what constitutes cost of goods sold occasions more controversy among accountants, and between accountants and business men, than any other one subject. This is due largely to the fact that the cost of manufacture, which is the principal element, in most cases determines the valuation of the inventory.

Most of these varying opinions are undoubtedly correct under certain conditions. Therefore, such of the author's views on disputed subjects as are here enunciated should not be construed as invariable in their application.

The amount of detail of the cost of a manufacturing business that may be presented in a statement is limited only by the classification of accounts or by the analysis that may be made of them. Following is a fairly complete statement of the cost of manufactured goods sold:

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

COST OF MANUFACTURE:
  Materials Consumed
  Direct Labor
  Factory Expenses:
    Superintendent and Foremen
    Factory Office Salaries and Supplies
    Receiving Department Expenses
    Cartage Inward - Estimated
    Stores Department Expenses
    Stock Department Expenses
    Janitors, Watchmen, and Elevatormen
    Power, Heat, and Light:
      Fuel
      Wages
      Oil, Waste, etc.
      Current Purchased
    Repairs:
      Building
      Machinery and Equipment
    Depreciation:
      Building
      Machinery and Equipment
    Property Taxes
    Insurance - Fire, Liability, etc.
    Rent of Factory Building
    Unemployed Time
    Inspection
    Defective Goods
    Experimental Expenses
    Infirmary
    Miscellaneous
        Total Factory Expenses
  Total Materials, Direct Labor, and
    Factory Expenses
  Less:
    Sales of Scrap
    Increase in Inventory of Work in Process
        Total
          Total Cost of Manufacture

ADD DECREASE IN INVENTORY OF FINISHED GOODS

MANUFACTURING COST OF GOODS SOLD

PACKING AND SHIPPING EXPENSES:
  Salaries and Wages
  Materials
  Cartage Outward - Estimated
        Total

COST OF GOODS SOLD

In the foregoing it is assumed that inward freight, duty, marine insurance, and other direct costs have been applied to the material and supply accounts affected, but that the company does its own carting and no distribution of the cost is made except a more or less arbitrary division between inward and outward.

The statement is also based upon the assumption that the finished goods are not packed until they are shipped. If, as often happens, the goods are carried in stock in the containers in which they are shipped, or they are not carried in stock at all, but are shipped as soon as manufactured, the major part of packing and shipping expenses should be classified as Factory Expenses, and thus be reflected in the Cost of Manufacture, which should be the basis for valuation of the inventory of finished goods. In such cases the remainder, representing shipping expenses, is relatively so inconsequential that it is treated in the same way.

The cost of materials consumed may be shown in greater detail if desired - as to kinds of material and as to purchases (net) and inventories at the beginning and end of the period. It is not considered necessary to show returned purchases as a separate item in any event. The differences in inventories of work in process and finished goods may also be detailed by showing in each case the inventories at the beginning and end. In the opinion of the author, most business men prefer the condensed form; if they want to know the amounts of the inventories they look at the balance sheet.

[illegible]

[illegible]

[illegible]

It is comparatively seldom that the degree of detail shown above would be given in a Statement of Income and Profit and Loss. For the presentation of such elaborate details, whether of cost or expenses, schedules are usually employed, only the totals being shown in the exhibits.

In some cases excise or revenue taxes are properly treated as cost of manufacture.

GROSS PROFIT

In statements for manufacturing companies, this item is sometimes called Manufacturing Profit.

SELLING EXPENSES

The items comprised in this group are usually somewhat as follows:

Salaries of Sales Manager and Clerks
Salaries of Salesmen
Commissions
Traveling
Advertising
Catalogues, etc.
Rent of Sales Offices
Postage, Stationery, etc.
Telephone and Telegraph
Sundry Sales Office Expenses
Miscellaneous

GENERAL EXPENSES

This group is often called Administrative and General Expenses. It is intended to include expenses which apply to the business as a whole, and not exclusively to any one of its major operations. These expenses are as follows:

Salaries of Officers
Salaries of General Office Clerks
Rent of General Office
Postage, Stationery, and Printing
Telephone and Telegraph
Legal
Professional Accounting
Directors' Fees
Traveling
Corporation and Capital Stock Taxes
Exchange (Domestic) and Collection Charges
Dues and Subscriptions
Contributions and Donations
Sundry Office Expenses
Miscellaneous

The selling and general expenses are often combined under the head of Selling and General Expenses, Operating Expenses, or Expenses - with or without subsidiary captions - which eliminates the item "Selling Profit." If the classification of expenses as between the two groups is sufficiently accurate, it is usually desirable to show the two totals, whether or not an intermediate figure of profit is computed, as the totals may be valuable in their relation to sales and prime cost for statistical purposes.

PROFIT FROM OPERATIONS

This item is the profit from the regular operations of the business, before deducting the cost of procuring capital with which to operate the business and any extraordinary losses or losses over which the management has had no control. There are many names for this profit, e.g.: Profit from Operations, Net Profit from Operations, Profit from Sales, Net Profit from Sales, Net Profit on Sales, Income from Operations, and Operating Income.

OTHER INCOME CREDITS

The items to be grouped under this caption should represent income from sources other than the regular operations of the business, including as such extraneous income derived from financial operations and considered applicable to the current period. Such items, in the case of a manufacturing or mercantile business, may be as follows:

Cash Discounts on Purchases
Interest on Bonds Owned
Interest on Notes and Accounts Receivable
Interest on Bank Balances
Dividends on Stocks Owned
Net Income from Real Estate
Profit from Sale of Temporary Investments
Profit from Foreign Exchange
Royalties Received
Commissions Received
Profit from Sale of Materials, etc.
Miscellaneous

The net income from real estate is usually detailed to the extent of showing the total rentals and total operating expenses - including insurance, taxes, and depreciation. In this connection, a distinction should be made between real estate held for investment (including any that may have been acquired in settlement of debts) and property which is essential to the operation of the business although not part of the plant itself. In the latter class are the tenant houses of a mining or manufacturing company, which must be maintained to house employees. While there can be no objection to treating a net income from the rentals of such property as an Income Credit, it appears that any loss should be treated as an element of cost of production.

INCOME CHARGES

Under this caption should be shown charges representing the cost of procuring capital and losses deductible from the income of the current period, such as the following:

Cash Discounts on Sales
Interest on Bonds
Interest on Notes and Accounts Payable
Uncollectible Notes and Accounts
Amortization of Bond Discount and Expense
Loss from Sale of Temporary Investments
Loss from Foreign Exchange
Net Loss from Real Estate
Amortization of War Facilities
  (when it is impracticable to charge it to cost)
Income and Excess Profits Taxes
Miscellaneous

Sometimes it is desirable to exclude from this group one or more items and show them as separate deductions, somewhat as follows:

Net Income before Charging Interest on
  Bonds and Income and Excess Profits Taxes
Interest on Bonds
Net Income before Charging Income and Excess
  Profits Taxes
Income and Excess Profits Taxes
Net Income

PROFIT AND LOSS CREDITS AND CHARGES

These groups are intended to provide for the following: extraordinary profits and losses from the sale or other disposal of capital assets, i.e., permanent investments; original capital in the form of good-will and organization expenses written off; premiums and discounts on the redemption of capital stock; distribution of profits; and items applicable to the operations of prior periods. The latter class is often treated as Surplus Adjustments, being applied to the Surplus

[illegible]

at the beginning of the year or shown separately, but no advantage is usually derived from such separation, as all the Profit and Loss items, with the exception of dividends, are, or should be, extraordinary. In the preparation of condensed statements, however, it is often convenient to show the surplus at the beginning of the period as adjusted.

There is a prevailing tendency to include in the Profit and Loss section charges and credits as applicable to prior periods when they are merely "lap-overs," that is, items which are constantly recurring but are seldom applicable to the period during which they are recorded. The effect is that these items are never comprehended in the income of any period. The most common instances are taxes, interest, uncollectible accounts, commissions, rebates on sales and purchases, legal expenses, and sundry adjustments of accruals. In the opinion of the author, all such items should be absorbed in the current accounts for the year if practicable. This can usually be done with propriety, except when the current year would be charged or credited with considerably more than a full year's proportion of such expenses or income.

If taxes, for example, had not been accrued at the beginning of the year, but had at the end of the year, it would not be proper to charge both the payments and accrual as expense applicable to that year. On the other hand, if accounts receivable are written off only when they are determined to be uncollectible, they should be charged against the income of the

[illegible]

period during which they were thus determined, regardless of the fact that they had originated in prior periods. Minor adjustments should not be shown in the Profit and Loss section unless, as a matter of expediency in the case of an audit report, it is done to conform to the client's statement.

If income and excess profits taxes are not charged by means of accruals against the income to which they apply, they should be treated as a charge against the income of the period during which they are paid, as otherwise the net income is always overstated. There is no justification for the treatment of such taxes as distributions of income.

As to items applicable to operating accounts of prior periods, if it is impracticable to include them in the same accounts for the current period, it is often well to show them as income charges or credits, so that in any event they will be comprehended in the net income.

VARIATIONS IN FORM FOR SPECIAL PURPOSES

It is sometimes desirable to vary the form of statements so as to show the surplus for the year, or the accumulated surplus, available for dividends, deducting the amount of the dividends as a separate item. The former arrangement is as follows:

Net Income
Profit and Loss Credits
Gross Surplus for the Period
Profit and Loss Charges, exclusive of Dividends
Surplus for the Period Available for Dividends
Dividends

Surplus for the Period
Surplus at beginning of the Period
Surplus at end of the Period

It occasionally happens that a commercial corporation sets aside a certain amount of profits as fixed surplus, designating that amount as Surplus and the remainder as Undivided Profits. This is analogous to the paid-in surplus of a financial institution, as distinguished from its undivided profits; and to the capital surplus of any corporation, arising from valuation of assets in excess of cost, as distinguished from its earned or profit and loss surplus. If a company makes a distinction between surplus and undivided profits, the statement of income and profit and loss should support the latter, and any appropriations of profits to increase the surplus should be shown as profit and loss charges. Then the latter part of the statement would appear somewhat as follows:

Net Income
Undivided Profits at beginning of the Period
Other Profit and Loss Credits
Total
Profit and Loss Charges
Undivided Profits at end of the Period

Similarly, if there is a capital surplus, it is necessary to earmark the surplus from operations, which is generally done by using the term Profit and Loss Surplus in the balance sheet, and wherever necessary in the statement of income and profit and loss.

If dividends, or any expenses or losses, are charged against a fixed surplus, or if reserves are used for any purpose except that for which they were ostensibly created, the

facts should be reflected in the statement of income and profit and loss for the period, by showing the amounts in the profit and loss credits as transfers from fixed surplus or reserves and taking up the charges in the section properly affected. The same principle applies to credits to fixed surplus or reserves; for example, if a company has credited directly to fixed surplus or to a reserve for depreciation a profit from the redemption of its bonds at a discount, the profit and the provision for depreciation should be shown in the statement of income and profit and loss.

As fully explained in Chapter I, under the head of Surplus, in the case of a partnership or sole proprietorship the statement usually ends with net income, unless undivided profits are carried separate from the fixed capital, or a summary of the capital account is added to the statement. In the latter case the statement is entitled, "Statement of Income and Capital Account."

STATEMENTS COVERING MORE THAN ONE PERIOD

When there is no radical change in the character of the business or the classification of accounts, it is appropriate for most businesses to present comparative statements. In an audit report this may also be undertaken if the accounts have been audited by the same accountant for the preceding period of the same duration, unless it is known that comparative statements are not desired by the client. Very often the client would appreciate comparisons even though the ac-

countant might have to qualify the statement with regard to the figures for the prior period by reason of not having audited the accounts for that period.

A comparative statement is one which shows the figures for one period and the increases and decreases as compared with the figures for another period, which may or may not themselves be exhibited. The changes may be shown in two columns, increase and decrease, or in one column, increases in black and decreases in red. The latter method has been found to be satisfactory in most cases. If the figures for the prior period are shown, the statement may be entitled, e.g., "Statement of Income and Profit and Loss for the Years Ended December 31, 1919 and 1918, and Comparison." If the 1918 figures are omitted, the title is "Statement of Income and Profit and Loss for the Year Ended December 31, 1919, and Comparison with the Preceding Year," or, to use an odd period, "Statement of Income and Profit and Loss for the Four Months Ended December 31, 1919, and Comparison with the Corresponding Period in the Preceding Year." Most people like to see the figures for the prior period.

Two or more periods may be shown in a statement without its being comparative in the sense employed here, even though the sole purpose of exhibiting the figures for the prior periods is to show their relation to those of the current period. Such a statement, for three periods, might be entitled "Statement of Income and Profit and Loss for the Years Ended December 31, 1919, 1918, and 1917."

In the preparation of a statement covering two or more periods, with or without comparison, when the primary interest is in the latest period, that period should be at the left and the most remote at the right, as indicated in the above title. When the periods appear to be equally important, it seems logical to arrange the columns in the reverse order, the earliest period at the left.

When the figures for the latest period are of primary interest, as they usually are, effect should be given to any changes in the classification of accounts or in other conditions which are reflected in the latest figures by adjusting the figures for the prior period or periods in accordance with the changed conditions, so as to present a true comparison. In regular periodical audit reports this adjustment of prior figures should not extend to changing the surplus at the end of the prior period, but it is often desirable to do so in special statements for the purpose of applying surplus adjustments of one period to the proper accounts of the periods actually affected.

It is sometimes desirable to show the percentages of increase or decrease as compared with the preceding period. When this information is given it is generally in addition to the amounts of increases or decreases, and is shown in a column or columns parallel to those amounts. The arrangement of the column headings is usually somewhat as follows:

Year Ended December 31, 1919	1918	Increase or *Decrease Amount	Per Cent

*Typed in red.

When an examination has been made for, say, three years, and the statement shows each of the years and the total, it may be called, e.g., "Statement of Income and Profit and Loss for the Three Years Ended December 31, 1919." If the statement covers the period from July 1, 1917, to December 31, 1919, and also exhibits the average per annum, it may be entitled "Statement of Income and Profit and Loss, by Periods, from July 1, 1917, to December 31, 1919, and Average per Annum."

OPERATIONS OF DEPARTMENTS, ETC.

There are a number of ways of showing operations by departments, branches, stores, etc. The determining factors in the choice of a method are the number of operating units, their relative importance, the similarity of their operations, and the length to which the distribution of expenses and other charges is carried.

Breweries, for example, generally make a fairly complete separation between the operations of the keg department and the bottling department, down to net income or even to surplus, and the operations of the departments are quite dissimilar; therefore, it is appropriate to make separate statements down to whatever point is desired by the person for whom the report is prepared. If the separation is made down to net in-

come, the balances will be carried to a Summary of Profit and Loss or to the balance sheet; if to surplus, the balances will be carried to the balance sheet, which will probably be stated by departments as well.

If the segregation of operations applies only to gross profit, and there are not more than two or three departments, the simplest, and therefore the best, method of exhibiting the operations by departments is somewhat as follows:

```
WHOLESALE DEPARTMENT:
  Net Sales
  Cost of Goods Sold
  Gross Profit

RETAIL DEPARTMENT:
  Net Sales:
    Cash
    Credit
        Total
  Cost of Goods Sold
  Gross Profit

TOTAL GROSS PROFIT

EXPENSES - etc.
```

In the case of a business having not more than two or three departments, where the distribution to departments is carried farther than gross profit, it is often appropriate to make the one statement columnar. For example, the operations of a public utility corporation having gas and electric departments might be shown thus:

	Total	Gas	Electric
Gross Earnings........................	$100,000	$60,000	$40,000
Operating Expenses (in as much detail as necessary)...............	70,000	40,000	30,000
Net Earnings..........................	$ 30,000	$20,000	$10,000
Other Income Credits...............	5,000		
Gross Income..........................	$ 35,000		
Income Charges.......................	10,000		
Net Income............................	$ 25,000		

The foregoing method may be employed regardless of the length to which the distribution of charges and credits is carried, if the items applicable to the several departments are reasonably uniform; but if there are a number of operating units it is usually better to make a schedule of department operations, usually without a total column, carrying the final figures to the exhibit as Gross Profit, Department Profit, Profit from Operations, or Net Income, of the several departments. Such a schedule might be entitled Department Operations, and the exhibit, Summary of Income and Profit and Loss. As stated before, if the operations are dissimilar it is better to make separate schedules. This will often apply if there are interdepartmental transfers, which should be eliminated if all operations are shown in one statement

STATISTICS, ETC.

In businesses which produce or deal in only one commodity, or in which certain departments are confined to one

commodity, it is practically as important to state averages per unit as it is to state amounts. In that class are virtually all companies deriving their product from natural resources, gas and electric companies, etc. Most large companies prepare such statistics themselves, and therefore, the public accountant is not called upon to do so; but many business men do not realize their value to the extent of having them prepared by their own forces, and so it is often appropriate for the professional auditors to include them in their report. It is well, however, not to devote a great amount of time to such work without consulting the client, as computations carried to considerable detail may not be considered worth their cost. Statistics of this character are usually shown in columns parallel with the amounts to which they relate. They may represent averages per unit produced, or sold, or both; or, for example, in the case of transportation companies, averages per train mile, per car mile, per ton mile, etc.

The same principle governs regarding ratios relating to the operations of commercial businesses, except that the ratios are almost invariably appropriate to some degree. In most manufacturing and trading businesses the executives are interested in the ratio to sales of the cost, expenses, and profit; and perhaps also in the ratio to cost of the expenses and profit. These ratios are usually shown for the totals of each class of expenses, unless there appears to be some special reason for showing details.

Following is an illustration of the method of showing such ratios in a statement for one period only:

Net Sales		$100,000.00
Cost of Goods Sold		80,000.00
Ratio to Net Sales	80.00%	
Gross Profit		$ 20,000.00
Ratio to Net Sales	20.00%	
Ratio to Cost of Goods Sold	25.00%	
Selling Expenses		5,000.00
Ratio to Net Sales	5.00%	
Ratio to Cost of Goods Sold	6.25%	
Selling Profit		$ 15,000.00
General Expenses		4,000.00
Ratio to Net Sales	4.00%	
Ratio to Cost of Goods Sold	5.00%	
Profit from Operations		$ 11,000.00
Ratio to Net Sales	11.00%	
Ratio to Cost of Goods Sold	13.75%	
Other Income Credits		3,000.00
Gross Income		$ 14,000.00
Income Charges		2,000.00
Net Income		$ 12,000.00

The following illustrates the method of showing the same ratios in a statement covering two or more periods:

	1919	1918
Net Sales....................	$100,000.00	$80,000.00
Cost of Goods Sold...........	80,000.00	60,000.00
Ratio to Net Sales.........	80.00%	75.00%
Gross Profit.................	$ 20,000.00	$20,000.00
Ratio to Net Sales.........	20.00%	25.00%
Ratio to Cost of Goods Sold	25.00%	33.33%
Selling Expenses.............	5,000.00	3,000.00
Ratio to Net Sales.........	5.00%	3.75%
Ratio to Cost of Goods Sold	6.25%	5.00%
Selling Profit...............	$ 15,000.00	$17,000.00
General Expenses.............	4,000.00	2,000.00
Ratio to Net Sales.........	4.00%	2.50%
Ratio to Cost of Goods Sold	5.00%	3.33%
Profit from Operations.......	$ 11,000.00	$15,000.00
Ratio to Net Sales.........	11.00%	18.75%
Ratio to Cost of Goods Sold	13.75%	25.00%
Other Income Credits.........	3,000.00	2,000.00
Gross Income.................	$ 14,000.00	$17,000.00
Income Charges...............	2,000.00	1,000.00
Net Income...................	$ 12,000.00	$16,000.00

* * * * *

In an audit report qualifications regarding statements are usually expressed in the comments or certificate, but in those cases where rectification of the accounts would effect a material difference in the figures presented, the qualification should be made on the face of the statement. The most frequent cause for qualification is the failure to provide for income and excess profits taxes, adequate depreciation, or expected losses. It may be equally desirable to comment upon

excessive provision for such charges or the understatement of earnings. These matters are usually covered in footnotes, but may in some cases be brought out in the items affected - for example, the surplus may be stated as "before providing for Federal taxes." As to such taxes or similar items, if practicable, the estimated amount should be included in the remarks, so that the reader will not be left entirely in the dark as to the effect of their omission upon the accounts.

Too much emphasis cannot be laid upon the necessity for adapting the statements to peculiar conditions. It is seldom that one form in its entirety can be used for two different businesses. Even in the same class of business, conducted under the same general plan, the classification of accounts may be very different, or one executive may not be interested in details to the extent that another is, or the purpose of the examination may be different, or there may be a loss instead of a profit - any of which might necessitate different treatment.

Judicious use should be made of schedules for the presentation of details which if shown in the exhibit would make that statement cumbersome and might obscure some major point; the same applies to the employment of statements to support items of schedules. In an audit report it is appropriate in many cases to furnish details in the comments.

It will occasionally be found that information regarding operations may be more vividly presented in the chart than in the statement form. This applies particularly to comparisons

of sales, costs, expenses, etc., between the several items and over a number of periods. The significance of the comparisons is impressed upon the mind more vividly by means of the converging or diverging curves than by an array of figures or even percentages. The charts are also well adapted to the exposition of a plan of organization or procedure. However, they are seldom used in audit reports. Their peculiar value in the presentation of operating statistics lies in their being kept up to date for the use of executives. In other words, their most useful purpose is to show the current record of the business. The audit report, on the other hand, is a review of past periods and does not usually go into details to the same extent that the internal records do, or should. For this reason, the subject of graphic charts is not elaborated upon in this volume. Those wishing to pursue the study of such methods are referred to "Graphic Methods for Presenting Facts," by Brinton.

* * * * *

In the following pages are specimen income and profit and loss statements which have been designed to exemplify many of the forms in common usage, and also to show the classification of items generally employed in such cases.

Form 16 is a statement of income and profit and loss of a manufacturing company, for a single period, showing considerable detail of the cost of goods sold.

Form 17 is a similar statement for a gas and electric company.

Form 18 is a statement for a trading business, introducing some new features, including the manner of showing a loss from operations and a deficit at the end of the period.

Form 19 is a statement for a contracting company, by semiannual periods, for a year, introducing also the use of supporting schedules.

Form 20 exemplifies a method of exhibiting the operations of a commission and trading business, in which certain statistical information is shown.

Form 21 is a summary of income of a stock brokerage firm, showing the distribution of net income.

Form 22 is a statement of income of a sole proprietor in the retail business, including a summary of the proprietor's capital account for the period.

Form 23 is a statement of income and Form 24 a statement of "surplus and deficit" of a hospital.

Form 25 is a comparative summary of income and profit and loss of a manufacturing company, in three columns, with several interesting features.

Form 26 is a comparative statement in which the amounts for the preceding period are not shown.

Form 27 is a statement for two periods and comparison by percentages.

Form 28 is a statement for three separate periods. Some features of the classification of items are interesting.

Form 29 is a six-column arrangement of a comparative statement. The advantages and disadvantages of this form, as compared with the three-column arrangement, are discussed under the head of Form 12, Chapter II.

Form 30 is a statement for three years and average per annum. It also contains some detail of cost of goods sold.

Form 31 is a statement of operations of a company by departments, with eliminations. It is assumed that the operations of each restaurant, and the total thereof, are shown in the supporting schedule.

FORM 16

THE BLANK MANUFACTURING COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1919

GROSS SALES,		$5,693,756.29
DEDUCTIONS FROM SALES:		
Returns and Allowances,	$ 96,843.31	
Outward Freight,	120,225.27	
Total,		217,068.58
NET SALES,		$5,476,687.71
COST OF GOODS SOLD:		
Manufactured Goods:		
Materials and Supplies Purchased	$2,255,875.61	
Less Increase in Inventory,	193,417.62	
Materials and Supplies Consumed,	$2,062,457.99	
Inward Freight and Cartage,	17,696.35	
Salaries and Wages,	1,718,004.09	
General Manufacturing Expense,	125,980.15	
Depreciation,	389,543.30	
Decrease in Inventory of Work in Process,	104,212.96	
Total Cost of Manufacture,	$4,417,894.84	
Less Increase in Inventory of Finished Goods,	12,101.49	
Total Manufactured Goods,	$4,405,793.35	
Purchased Goods,	53,488.54	
Total Cost of Goods Sold,		4,459,281.89
GROSS PROFIT FROM SALES,		$1,017,405.82
SELLING EXPENSES:		
Salaries,	$ 123,745.85	
Commissions,	50,550.91	
Traveling and Entertainment,	24,251.13	
Advertising,	29,313.72	
General,	31,922.43	
Total,		259,784.04
SELLING PROFIT,		$ 757,621.78
GENERAL EXPENSES:		
Salaries,	$ 52,164.37	
Professional Fees and Expenses,	8,396.74	
Other,	34,347.97	
Total,		94,909.08
NET PROFIT FROM SALES - (Forward),		$ 662,712.70

EXHIBIT "B" (Continued) - 1.

[illegible]

FORM 16
THE BLANK MANUFACTURING COMPANY
STATEMENT OF INCOME AND PROFIT AND LOSS, ETC.

NET PROFIT FROM SALES - (Forward),		$ 662,712.70
OTHER INCOME CREDITS:		
Income from Investments,	$ 16,284.41	
Other Interest,	12,119.25	
Cash Discounts on Purchases,	11,900.23	
Miscellaneous,	5,020.94	
Total,		45,324.83
GROSS INCOME,		$ 708,037.53
INCOME CHARGES:		
Provision for Federal Taxes,	$ 200,000.00	
Cash Discounts on Sales,	120,317.92	
Interest on Notes Payable,	26,707.25	
Doubtful Accounts Written Off,	7,412.72	
Miscellaneous,	19,286.29	
Total,		373,724.18
NET INCOME,		$ 334,313.35
SURPLUS, JANUARY 1, 1919,		678,250.60
OTHER PROFIT AND LOSS CREDITS:		
Adjustments Applicable to Prior Period,	$ 14,454.27	
Profit from Sale of Real Estate,	18,025.35	
Total,		32,479.62
GROSS SURPLUS,		$1,045,043.57
PROFIT AND LOSS CHARGES:		
Dividends,	$ 300,000.00	
Loss on Machinery Scrapped,	45,242.43	
Additional Federal Taxes for the Years 1913 to 1917, inclusive,	75,614.91	
Total,		420,857.34
SURPLUS, DECEMBER 31, 1919,		$ 624,186.23

FORM 17

THE BLANK GAS & ELECTRIC COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1919

OPERATING REVENUE:			
Electric Department,		$790,126.93	
Gas Department,		340,323.02	
Total,			$1,130,449.95
OPERATING EXPENSES AND TAXES:			
Electric Department:			
Operating Expenses:			
Production,		$406,144.31	
Transmission,		23,140.39	
Electric Storage,		465.73	
Distribution,		24,029.18	
Utilization,		6,521.70	
Commercial,		14,613.14	
New Business,		2,053.30	
General,		56,392.12	
Total,		$533,359.87	
Ratio to Operating Revenue,	67.51%		
Taxes,		20,476.54	
Total Electric Department,		$553,836.41	
Ratio to Operating Revenue,	70.09%		
Gas Department:			
Operating Expenses:			
Production,		$170.349.76	
Transmission and Distribution,		11,677.96	
Commercial,		8,888.75	
New Business,		1,138.67	
General,		20,197.72	
Total,		$212,252.86	
Ratio to Operating Revenue,	62.37%		
Taxes,		13,106.54	
Total Gas Department,		$225,359.40	
Ratio to Operating Revenue,	66.22%		
Total Operating Expenses and Taxes,			779,195.81
Ratio to Operating Revenue,		68.94%	
OPERATING INCOME - (Forward),			$ 351.254.14

FORM 17
THE BLANK GAS & ELECTRIC COMPANY
STATEMENT OF INCOME AND PROFIT AND LOSS, ETC.

OPERATING INCOME - (Forward),		$ 351,254.14
OTHER INCOME CREDITS:		
Rentals of Land and Equipment,	$ 15,180.72	
Electric Merchandise and Jobbing Revenue,	2,355.03	
Profit on Labor and Materials Sold,	342.07	
Interest on Bonds in Sinking Fund,	4,354.05	
Interest on Liberty Loan Bonds,	832.07	
Interest on Notes Receivable, Bank Balances, etc.,	2,319.26	
Total,		25,383.20
GROSS INCOME,		$ 376,637.34
INCOME CHARGES:		
Interest on Funded Debt,	$127,650.98	
Interest on Floating Debt,	41,981.00	
Amortization of Debt Discount and Expense,	17,773.86	
Rent of Right of Way,	3,289.50	
Rent of Equipment,	2,577.70	
Total,		193,273.04
NET INCOME,		$ 183,364.30
PROFIT AND LOSS CREDITS:		
Discount on Bonds Purchased for Sinking Fund,	$ 6,475.00	
Miscellaneous Items Applicable to Prior Period (Net),	2,319.05	
Total,		8,794.05
GROSS SURPLUS FOR THE YEAR,		$ 192,158.35
PROFIT AND LOSS CHARGES:		
Loss on Property Retired,	$ 35,290.86	
Adjustment of Amortization of Debt Discount and Expense - Prior Period,	4,824.35	
Dividends:		
Preferred Stock,	70,000.00	
Common Stock,	50,000.00	
Total,		160,115.21
SURPLUS FOR THE YEAR,		$ 32,043.14
SURPLUS, JANUARY 1, 1919,		59,361.19
SURPLUS, DECEMBER 31, 1919,		$ 91,404.33

FORM 18

BLANK & COMPANY, INC.

STATEMENT OF INCOME AND PROFIT AND LOSS
FROM THE DATE OF INCORPORATION, JULY 6, 1919, TO DECEMBER 31, 1919

GROSS SALES,		$380,240.60
LESS RETURNS AND ALLOWANCES,		574.55
NET SALES,		$379,666.05
COST OF GOODS SOLD:		
Purchases,	$354,724.39	
Freight, Drayage, and Express on Purchases,	2,661.69	
Total,	$357,386.08	
Less Inventory, December 31, 1919,	890.60	
Total Cost of Goods Sold,		356,495.48
GROSS PROFIT,		$ 23,170.57
SELLING AND GENERAL EXPENSES:		
Officers' Salaries,	$ 14,250.00	
Salesmen's Salaries and Commissions,	2,393.03	
Traveling Expenses,	1,376.40	
Office Salaries,	2,166.35	
Office Rent,	1,085.00	
Stationery, Printing, and Postage,	1,022.42	
Telephone and Telegraph,	1,266.78	
Subscriptions and Advertising,	281.25	
Depreciation of Furniture and Fixtures,	278.81	
Miscellaneous,	249.72	
Total,		24,369.76
LOSS FROM OPERATIONS,		$ 1,199.19
INCOME CHARGES:		
Cash Discounts on Sales,	$ 2,986.89	
Uncollectible Accounts,	2,728.51	
Discounts on Trade Acceptances,	266.81	
Interest on Accounts Payable,	97.35	
Settlement on Account of Inability to Fill Sales Order,	300.00	
Total,		6,379.56
GROSS DEFICIT,		$ 7,578.75
INCOME CREDITS:		
Cash Discounts on Purchases,	$ 3,332.03	
Selling Commissions,	675.79	
Interest on Bank Balances,	145.22	
Total,		4,153.04
DEFICIT, DECEMBER 31, 1919,		$ 3,425.71

EXHIBIT "B"

FORM 19

THE BLANK CONTRACTING COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS, BY PERIODS, FOR THE YEAR ENDED APRIL 30, 1919

	TOTAL	....SIX MONTHS ENDED.... APRIL 30, 1919	OCTOBER 31, 1918
ROSS EARNINGS ON CONTRACTS COMPLETED DURING THE PERIOD - Schedule #1, ...	$914,932.27	$525,690.22	$389,242.05
OST OF CONTRACTS - Schedule #1, ...	$750,553.74	$441,723.14	$308,830.60
Less Excess Charges for Plant Rental over Expense, ...	27,050.02	13,232.98	13,817.04
Net Cost of Contracts, ...	$723,503.72	$428,490.16	$295,013.56
ROSS PROFIT, ...	$191,428.55	$ 97,200.06	$ 94,228.49
ENERAL EXPENSES:			
Officers' and Office Salaries, ...	$ 26,352.14	$ 14,640.08	$ 11,712.06
New York Office Rent and Expenses, ...	4,624.37	2,293.72	2,330.65
Branch Office Rent and Expenses, ...	266.62	69.95	196.67
Advertising and Entertaining, ...	5,371.62	3,130.97	2,240.65
Traveling, ...	1,368.93	540.42	828.51
Taxes (Other than Income and Excess Profits Taxes), ...	618.67	366.61	252.06
Insurance, ...	357.75	329.54	28.21
Legal and Auditing Expenses, ...	3,412.66	1,867.30	1,545.36
Depreciation - Normal:			
Plant Equipment, ...	9,573.93	5,579.03	3,994.90
Small Tools, ...	5,424.65	4,647.85	776.80
Office Furniture, ...	184.95	99.47	85.48
Bonuses to Employees, ...	13,937.60	6,241.80	7,695.80
Dònations, ...	648.75	420.65	228.10
Miscellaneous, ...	2,682.92	1,074.96	1,607.96
Total, ...	$ 74,825.56	$ 41,302.35	$ 33,523.21
ET PROFIT, ...	$116,602.99	$ 55,897.71	$ 60,705.28
THER INCOME CREDITS:			
Interest on Investments, ...	$ 762.16	$ 533.37	$ 228.79
Interest on Accounts Receivable, ...	299.14	299.14	
Cash Discounts on Purchases, ...	196.25	127.21	69.04
Profit on Exchange, ...	111.52	66.20	45.32
Royalties, ...	132.87	132.87	
Total, ...	$ 1,501.94	$ 1,158.79	$ 343.15
ROSS INCOME - (Forward), ...	$118,104.93	$ 57,056.50	$ 61,048.43

EXHIBIT "B" (Continued) - 1.

FORM 19
THE BLANK CONTRACTING COMPANY
STATEMENT OF INCOME AND PROFIT AND LOSS, ETC.

	TOTAL	....SIX MONTHS ENDED.... APRIL 30, 1919	OCTOBER 31, 1918
GROSS INCOME - (Forward),................	$118,104.93	$ 57,056.50	$ 61,048.43
INCOME CHARGES:			
Interest on Notes Payable,.............	$ 485.61	$ 253.59	$ 232.02
Amortization of Patent - Year Ended April 30, 1919,.....................	26,572.82	26,572.82	
Provision for Extraordinary Depreciation on Account of Abnormal Conditions:			
Plant Equipment,.....................	9,573.93	9,573.93	
Small Tools,.........................	5,424.65	5,424.65	
Uncollectible Accounts,................	10,416.01	6,391.01	4,025.00
Total,................	$ 52,473.02	$ 48,216.00	$ 4,257.02
NET INCOME,..............................	$ 65,631.91	$ 8,840.50	$ 56,791.41
SURPLUS AT BEGINNING OF PERIOD,..........	273,116.19	275,308.63	273,116.19
OTHER PROFIT AND LOSS CREDITS:			
Interest on Investments Applicable to Prior Periods,......................	276.14		276.14
Credits on Contracts Applicable to Prior Periods - Schedule #2,...............	19,677.76	11,002.07	8,675.69
GROSS SURPLUS,...........................	$358,702.00	$295,151.20	$338,859.43
PROFIT AND LOSS CHARGES:			
Dividends,.............................	$ 60,000.00	$ 10,000.00	$ 50,000.00
Cost of Contracts Applicable to Prior Periods - Schedule #2,...............	31,109.17	17,558.37	13,550.80
Amortization of Patent - Year Ended April 30, 1918,.....................	26,572.82	26,572.82	
Total,................	$117,681.99	$ 54,131.19	$ 63,550.80
SURPLUS AT END OF PERIOD,................	$241,020.01	$241,020.01	$275,308.63

NOTE: No provision has been made for Federal Income and Excess Profits Taxes for the year, which are estimated at approximately $10,000.00.

FORM 20

THE TEXTILE TRADING COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1919

	NET SALES AMOUNT	NET SALES % OF TOTAL	GROSS PROFIT* AMOUNT	GROSS PROFIT* % OF TOTAL
TRADING OPERATIONS,	$ 8,514,046.93	27.40	$ 901,325.26	61.30
COMMISSION OPERATIONS:				
Mill "A",	14,592,267.22	46.97	314,674.54	21.40
Mill "B",	3,213,754.91	10.34	94,112.43	6.40
Other Mills,	4,750,819.54	15.29	160,367.06	10.90
TOTAL,	$31,070,888.60	100.00	$1,470,479.29	100.00

GROSS PROFIT, AS ABOVE,		$1,470,479.29
SELLING AND GENERAL EXPENSES:		
Salaries,	$428,980.41	
Brokerage and Commissions,	166,560.81	
Advertising,	11,842.98	
Branch Office Expenses,	25,390.67	
Insurance,	8,536.00	
Samples,	5,645.97	
Traveling,	11,818.03	
Repairs to Building,	5,305.12	
Depreciation of Building,	11,118.70	
Depreciation of Furniture and Fixtures,	5,170.17	
Office Supplies,	9,448.94	
Telephone and Telegraph,	17,642.73	
Postage,	5,808.05	
Credit and Collection Expenses,	5,859.38	
Taxes (Other than Federal Income and Profits Taxes),	5,193.77	
Professional Services,	17,348.43	
Sample Books and Cases,	2,576.33	
Engraving and Lithographing,	3,263.80	
Miscellaneous,	14,001.05	
Total,		761,511.34
PROFIT FROM OPERATIONS,		$ 708,967.95
OTHER INCOME CREDITS:		
Interest on Investment Securities,	$ 7,547.15	
Interest on Mill Accounts,	21,314.92	
Interest on Bank Balances,	2,868.67	
Profit from Cancellation of Contracts,	8,129.68	
Miscellaneous,	2,619.04	
Total,		42,479.46
GROSS INCOME – (Forward),		$ 751,447.41

* Based upon inventory at cost, before adjustment to market values.

EXHIBIT "B" (Continued) - 1.

FORM 20
THE TEXTILE TRADING COMPANY
STATEMENT OF INCOME AND PROFIT AND LOSS, ETC.

GROSS INCOME - (Forward),		$ 751,447.41
INCOME CHARGES:		
Cash Discounts on Sales,	$ 40,531.02	
Interest on Notes Payable,	49,965.77	
Interest on Accounts of Officers and Employees,	1,731.26	
Loss from Sale of Liberty Loan Bonds,	1,205.17	
Loss through Theft of Liberty Loan Bonds,	3,759.20	
Loss in Adjustment of Inventory to Market Values,	92,367.04	
Income and Profits Taxes for the Year 1918,	426,775.13	
Total,		616,334.59
NET INCOME,		$ 135,112.82
SURPLUS, JANUARY 1, 1919,		1,299,107.16
OTHER PROFIT AND LOSS CREDITS:		
Proportion of Depreciation of Building Chargeable to Surplus from Appreciation of Building,	$ 4,678.21	
Recovery on Claims, Applicable to Prior Years,	9,401.46	
Insurance Policies on Lives of Officers taken over by them at cash surrender values,	3,527.02	
Total,		17,606.69
GROSS SURPLUS,		$1,451,826.67
DIVIDENDS,		100,000.00
SURPLUS, DECEMBER 31, 1919,		$1,351,826.67

NOTE: No provision has been made for Federal Income and Excess Profits Taxes for the year, which are estimated at approximately $200,000.00

FORM 21

JOHN DOE & COMPANY

SUMMARY OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1919

INCOME:			
Commissions,		$127,576.58	
Interest and Carrying Charges - Net,		27,444.30	
Net Profit on Investment Securities,		4,635.18	
Total,			$159,656.06
EXPENSES AND OTHER CHARGES:			
General Expenses,		$ 59,536.55	
Partners' Salaries,		20,000.00	
Interest on Partners' Capital and Personal Accounts:			
John Doe,	$23,414.27		
Richard Roe,	8,922.16	32,336.43	
Total,			111,872.98
NET INCOME,			$ 47,783.08
DISTRIBUTION OF NET INCOME:			
John Doe - 2/3,		$ 31,855.39	
Richard Roe - 1/3,		15,927.69	$ 47,783.08

FORM 22

JOHN DOE

STATEMENT OF INCOME AND CAPITAL ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1919

SALES:		
Cash,	$75,119.24	
Credit,	23,912.65	
Total,		$99,031.89
COST OF GOODS SOLD:		
Merchandise Inventory, January 1, 1919,	$22,212.01	
Purchases,	56,595.24	
Freight, Express, and Cartage,	1,131.53	
Total,	$79,938.78	
Less Merchandise Inventory, December 31, 1919.	27,319.50	
Total Cost of Goods Sold,		52,619.28
GROSS TRADING PROFIT,		$46,412.61
EXPENSES:		
Wages,	$11,946.27	
Rent,	3,000.00	
Salary of Proprietor,	6,000.00	
Store Supplies,	2,627.09	
Operation of Delivery Cars,	1,245.63	
Depreciation of Delivery Cars,	200.00	
Stationery and Postage,	298.14	
General,	1,020.33	
Total,		26,337.46
NET TRADING PROFIT,		$20,075.15
INTEREST PAID,		427.62
NET INCOME, CARRIED TO CAPITAL ACCOUNT,		$19,647.53

CAPITAL ACCOUNT

BALANCE, JANUARY 1, 1919,		$29,457.06
CREDITS:		
Salary,	$ 6,000.00	
Net Income, as above,	19,647.53	
Income from Outside Investments,	812.49	26,460.02
Total,		$55,917.08
CHARGES:		
Cash Withdrawals,	$12,750.51	
Income Tax for Year 1918,	3,212.15	15,962.66
BALANCE, DECEMBER 31, 1919,		$39,954.42

FORM 23

THE BLANK HOSPITAL

INCOME ACCOUNT FOR THE YEAR ENDED APRIL 30, 1920

HOSPITAL REVENUE:		
Private Room Patients,	$ 59,451.55	
Ward Pay Patients,	43,576.93	
City Patients,	17,626.00	
Special Nursing,	45,834.25	
X-Ray Service and Treatment,	18,142.83	
Radium Treatment,	1,275.00	
Operating Room Fees,	3,970.00	
Out-patient Department,	14,251.89	
Ambulance Fees,	317.50	
Fees from Pupil Nurses,	3,725.00	
Miscellaneous,	2,762.90	
Total,		$210,933.85
OTHER INCOME:		
Income from Investments of Unrestricted Funds,	$286,387.39	
Donations,	48,492.98	
Income from Fund for Educational and Scientific Work,	40,492.67	
Appropriations from Special Funds for Stated Purposes,	29,776.45	
Rentals of Real Estate, Less Expenses,	6,575.11	
Interest on Bank Balances,	1,996.62	
Total,		413,721.22
GROSS INCOME,		$624,655.07
EXPENSES:		
Administration,	$ 55,731.05	
Professional Care of Patients:		
Salaries and Wages,	96,106.21	
Medical and Surgical Supplies,	35,979.45	
Uniforms and Equipment for Nurses,	4,696.50	
Out-patient Department,	12,022.17	
Laboratories,	29,116.63	
X-Ray Service,	14,013.31	
Ambulance,	612.70	
Housekeeping,	37,427.63	
Kitchen,	14,071.26	
Laundry,	10,950.23	
Steward's Department,	147,491.42	
Educational and Scientific Work,	23,807.79	
General House and Property Expenses,	95,902.14	
Corporation Expenses,	12,398.39	
Current Expenditures from Special Funds for Stated Purposes,	9,656.85	
Total,		599,983.73
NET INCOME FOR THE YEAR,		$ 24,671.34

EXHIBIT "B"

FORM 24

THE BLANK HOSPITAL

SURPLUS AND DEFICIT ACCOUNT
FOR THE YEAR ENDED APRIL 30, 1920

DEFICIT, MAY 1, 1919,		$257,048.37
CHARGES:		
Expenditures for Additions and Improvements Transferred to Capital Account:		
Furniture and Fixtures,	$ 2,316.93	
Machinery and Tools,	6,403.09	
Apparatus and Instruments,	7,421.35	
Library,	1,636.63	17,778.00
Net Loss from Sales of Investment Securities,		62,727.78
Uncollectible Accounts with Patients Written Off,		619.35
Amount Credited to Fund for Educational and Scientific Work on Account of Expenses Erroneously Charged to that Fund in preceding year,		1,234.17
GROSS DEFICIT,		$339,407.67
CREDITS:		
Net Income for the Year, per Exhibit "B",	$24,671.34	
Profit from Sale of Real Estate,	14,727.87	
Unclaimed Excess Payments by Patients Written Off,	212.19	
Transfer of Balance of Reserve which is no longer required,	6,750.00	
Total,		46,361.40
DEFICIT, APRIL 30, 1920,		$293,046.27

EXHIBIT "C"

FORM 25

THE BLANK COMPANY

SUMMARY OF INCOME AND PROFIT AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 1919 AND 1918, AND COMPARISON

	..YEAR ENDED DECEMBER 31,.. 1919	1918	INCREASE *DECREASE
GROSS SALES:			
New York,	$2,622,238.55	$2,280,906.72	$ 341,331.83
Boston,	1,507,908.85	1,217,995.33	289,913.52
Chicago,	2,843,764.22	2,398,156.11	445,608.11
Total,	$6,973,911.62	$5,897,058.16	$1,076,853.46
Less Trade Discounts, Returns, Allowances, and Freight,	1,091,770.48	840,836.57	250,933.91
ET SALES,	$5,882,141.14	$5,056,221.59	$ 825,919.55
OST OF GOODS SOLD,	4,258,727.75	3,898,751.99	359,975.76
ROSS PROFIT,	$1,623,413.39	$1,157,469.60	$ 465,943.79
ELLING AND GENERAL EXPENSES:			
New York,	$ 354,324.76	$ 267,708.44	$ 86,616.32
Boston,	150,564.22	123,945.65	26,618.57
Chicago,	397,228.23	360,875.66	36,352.57
Total,	$ 902,117.21	$ 752,529.75	$ 149,587.46
ET PROFIT,	$ 721,296.18	$ 404,939.85	$ 316,356.33
THER INCOME:			
Dividends on Stocks Owned,	$ 8,250.00	$ 3,750.00	$ 4,500.00
Profit from Sale of Light and Power,	8,239.65	6,121.12	2,118.53
Miscellaneous,	4,692.01	5,281.20*	589.19
Total,	$ 21,181.66	$ 15,152.32	$ 6,029.34
ROSS INCOME,	$ 742,477.84	$ 420,092.17	$ 322,385.67
NCOME CHARGES:			
Cash Discounts on Sales,	$ 104,827.11	$ 89,809.44	$ 15,017.67
Interest - Net,	113,877.45	115,066.93*	1,189.48
Uncollectible Accounts,	14,665.61	18,612.91*	3,947.30
Income and Excess Profits Taxes,	76,921.04	49,673.56	27,247.48
Miscellaneous,	3,604.93	2,012.40	1,592.53
Total,	$ 313,896.14	$ 275,175.24	$ 38,720.90
ET INCOME,	$ 428,581.70	$ 144,916.93	$ 283,664.77
ROFIT AND LOSS CREDITS:			
Premium on Sale of Common Stock,	$ 37,500.00		$ 37,500.00
Discount on Purchase of Preferred Stock,	500.00		500.00
Total,	$ 38,000.00		$ 38,000.00
ROSS SURPLUS FOR THE YEAR,	$ 466,581.70	$ 144,916.93	$ 321,664.77
ROFIT AND LOSS CHARGES - DIVIDENDS,	235,000.00	117,500.00	117,500.00
ROFIT AND LOSS SURPLUS FOR THE YEAR,	$ 231,581.70	$ 27,416.93	$ 204,164.77
ROFIT AND LOSS SURPLUS AT BEGINNING OF THE YEAR,	1,318,075.73	1,290,658.80	27,416.93
ROFIT AND LOSS SURPLUS AT END OF THE YEAR,	$1,549,657.43	$1,318,075.73	$ 231,581.70

* Typed in red.

NOTE: Appreciation of property during the year has been treated as Special Surplus, as shown in Exhibit "A".

EXHIBIT "B"

FORM 26

THE BLANK MANUFACTURING COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1919,
AND COMPARISON WITH THE PRECEDING YEAR

	YEAR ENDED DECEMBER 31, 1919	INCREASE *DECREASE
GROSS SALES:		
Manufactured Goods,	$2,909,713.79	$550,498.75
Purchased Goods,	224,317.04	* 36,312.49
Total,	$3,134,030.83	$514,186.26
RETURNS AND ALLOWANCES,	267,914.93	81,328.83
NET SALES,	$2,866,115.90	$432,857.43
COST OF GOODS SOLD:		
Manufactured Goods,	$2,038,609.35	$205,666.92
Purchased Goods,	156,329.04	* 27,012.40
Shipping Expenses,	49,835.82	5,835.45
Total,	$2,244,774.21	$184,489.97
GROSS PROFIT,	$ 621,341.69	$248,367.46
SELLING EXPENSES:		
Advertising,	$ 75,625.33	$ 49,249.93
Salaries,	41,809.28	5,882.27
Commissions,	26,112.04	6,899.99
Traveling,	9,652.43	2,129.51
Miscellaneous,	5,329.48	* 282.99
Total,	$ 158,528.56	$ 63,878.71
GENERAL EXPENSES:		
Salaries of Officers,	$ 45,000.00	
Salaries of Clerks,	52,852.24	*$ 1,246.72
Stationery, Printing, and Postage,	7,137.13	422.84
Telephone and Telegraph,	3,295.92	211.97
Corporation Taxes,	4,627.15	* 485.75
Legal and Auditing,	2,401.97	* 613.75
Contributions,	5,600.00	* 3,300.00
Miscellaneous,	8,962.57	3,340.56
Total,	$ 129,876.98	*$ 1,670.85
TOTAL SELLING AND GENERAL EXPENSES,	$ 288,405.54	$ 62,207.86
PROFIT FROM OPERATIONS - (Forward),	$ 332,936.15	$186,159.60

* Typed in red.

(Continued) - 1.

FORM 26
THE BLANK MANUFACTURING COMPANY
STATEMENT OF INCOME AND PROFIT AND LOSS, ETC.

	YEAR ENDED DECEMBER 31, 1919	INCREASE *DECREASE
PROFIT FROM OPERATIONS - (Forward),.	$ 332,936.15	$186,159.60
OTHER INCOME CREDITS:		
Cash Discounts on Purchases,......	$ 6,712.91	$ 593.49
Interest Earned,..................	9,026.17	* 1,204.08
Total,...............	$ 15,739.08	*$ 610.59
GROSS INCOME,.........................	$ 348,675.23	$185,549.01
INCOME CHARGES:		
Income and Excess Profits Taxes,..	$ 65,912.40	$ 50,800.39
Interest on Notes Payable,........	23,171.53	3,834.63
Total,...............	$ 89,083.93	$ 54,635.02
NET INCOME,...........................	$ 259,591.30	$130,913.99
SURPLUS AT BEGINNING OF THE YEAR,...	1,123,587.45	* 71,322.69
GROSS SURPLUS,........................	$1,383,178.75	$ 59,591.30
DIVIDENDS,............................	300,000.00	100,000.00
SURPLUS AT END OF THE YEAR,.........	$1,083,178.75	*$ 40,408.70

* Typed in red.

(Concluded) - 2.

FORM 27

THE BLANK MERCANTILE COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 1919 AND 1918,
AND COMPARISON BY PERCENTAGES

	YEAR ENDED DECEMBER 31, 1919	1918	PERCENTAGE OF INCREASE OR *DECREASE
NET SALES,	$549,637.10	$351,060.67	57
COST OF GOODS SOLD,	302,050.62	222,154.53	36
Ratio to Net Sales,	55%	63%	*13
GROSS PROFIT,	$247,586.48	$128,906.14	92
DEPARTMENT EXPENSES:			
Salaries and Wages,	$ 88,259.38	$ 48,479.75	82
Rent,	21,721.67	19,820.87	10
Light and Heat,	2,751.61	2,247.30	22
Delivery and Wrapping,	3,517.49	2,533.92	39
Advertising,	19,893.82	13,405.49	48
Insurance,	2,327.40	1,446.20	61
Depreciation,	2,478.61	2,078.15	19
Miscellaneous,	5,036.20	6,972.69	*28
Total,	$145,986.18	$ 96,984.37	50
Ratio to Net Sales,	27%	27%	
Ratio to Cost of Goods Sold,	48%	44%	9
DEPARTMENT PROFIT,	$101,600.30	$ 31,921.77	218
GENERAL EXPENSES:			
Executive and Office Salaries,	$ 24,420.61	$ 12,094.67	102
Office Rent,	750.00	834.07	*10
Stationery and Postage,	1,218.07	916.52	33
Telephone and Telegraph,	392.05	374.21	5
Legal and Auditing,	1,256.59	982.57	28
Depreciation of Office Equipment	295.55	220.71	34
Property and Capital Stock Taxes	2,231.00	1,488.00	50
Miscellaneous,	3,296.55	2,709.22	22
Total,	$ 33,860.42	$ 19,619.97	73
Ratio to Net Sales,	6%	6%	
Ratio to Cost of Goods Sold,	11%	9%	22
PROFIT FROM OPERATIONS - (Forward),	$ 67,739.88	$ 12,301.80	451

* Typed in red.

(Continued) - 1.

FORM 27
THE BLANK MERCANTILE COMPANY
STATEMENT OF INCOME AND PROFIT AND LOSS, ETC.

	YEAR ENDED DECEMBER 31, 1919	1918	PERCENTAGE OF INCREASE OR *DECREASE
PROFIT FROM OPERATIONS - (Forward)	$ 67,739.88	$ 12,301.80	451
OTHER INCOME CREDITS - DISCOUNT AND INTEREST,	12,475.41	7,417.98	68
GROSS INCOME,	$ 80,215.29	$ 19,719.78	307
INCOME CHARGES:			
Interest,	$ 7,575.11	$ 4,726.15	60
Uncollectible Accounts,	448.40	271.20	65
Loss from Sale of Liberty Loan Bonds,	328.20		
Income and Profits Taxes,	15,121.64	2,764.29	447
Total,	$ 23,473.35	$ 7,761.64	202
NET INCOME,	$ 56,741.94	$ 11,958.14	374
SURPLUS AT BEGINNING OF THE YEAR,	8,045.11	4,086.97	97
GROSS SURPLUS,	$ 64,787.05	$ 16,045.11	305
DIVIDENDS,	24,000.00	8,000.00	200
SURPLUS AT END OF THE YEAR,	$ 40,787.05	$ 8,045.11	407

* Typed in red.

(Concluded) - 2.

FORM 28

THE BLANK BREWING COMPANY

SUMMARY OF INCOME AND PROFIT AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 1919, 1918, AND 1917

	YEAR ENDED DECEMBER 31, 1919	1918	1917
DEPARTMENT PROFITS:			
Brewery - Schedule #1,	$ 99,869.81	$ 88,864.07	$126,028.52
Ice Plant - Schedule #2,	16,503.26	20,748.49	19,095.37
Bottling Department - Schedule #3,	1,268.83	1,746.80	2,197.49
Total,	$ 117,641.90	$ 111,359.36	$147,319.38
GENERAL EXPENSES:			
Salaries of Officers,	$ 29,313.66	$ 29,327.26	$ 28,976.58
Directors' Fees,	700.00	880.00	640.00
Taxes and Licenses (Not including Income and Profits Taxes),	3,640.40	3,980.00	3,810.63
Insurance,	487.67	314.34	299.78
Depreciation of Office Furniture and Fixtures,	152.04	152.03	152.04
Miscellaneous,	475.00	581.40	325.00
Total,	$ 34,768.77	$ 35,035.03	$ 34,204.03
PROFIT FROM OPERATIONS,	$ 82,873.13	$ 76,324.33	$113,115.35
OTHER INCOME CREDITS:			
Net Income from Investment Real Estate: Rentals,	$ 52,152.21	$ 42,161.38	$ 35,028.64
Less:			
Repairs, Taxes, Insurance, etc.,	$ 8,962.79	$ 7,427.97	$ 5,225.04
Depreciation,	23,028.31	20,678.98	15,767.95
Total,	$ 31,991.10	$ 28,106.95	$ 20,992.99
Net Income,	$ 20,161.11	$ 14,054.43	$ 14,035.65
Interest and Dividends on Investment Securities,	6,196.61	3,994.51	3,146.67
Interest on Notes Receivable,	12,847.14	15,949.22	15,309.85
Interest on Bank Balances,	1,797.56	2,062.74	2,645.52
Profit from Sales of Investment Securities,	103.76	275.00	100.00
Total,	$ 41,106.18	$ 36,335.90	$ 35,237.69
GROSS INCOME,	$ 123,979.31	$ 112,660.23	$148,353.04
INCOME CHARGES:			
Interest on Mortgages Payable,	$ 1,245.39	$ 621.53	
Notes and Accounts Written Off - Net,	11,968.64	2,336.27	$ 4,627.93
Adjustment of Book Value of Investment Real Estate,		3,879.28	585.06
Federal Income and Profits Taxes for the Preceding Year,	22,354.67	15,092.14	12,553.19
Total,	$ 35,568.70	$ 21,929.22	$ 17,766.18
NET INCOME,	$ 88,410.61	$ 90,731.01	$130,586.86
SURPLUS AT BEGINNING OF THE YEAR,	1,013,423.36	937,692.35	847,105.49
GROSS SURPLUS,	$1,101,833.97	$1,028,423.36	$977,692.35
DIVIDENDS DECLARED AND PAID,	45,000.00	15,000.00	40,000.00
SURPLUS AT END OF THE YEAR,	$1,056,833.97	$1,013,423.36	$937,692.35

NOTE: No provision has been made for Federal Income and Excess Profits Taxes for the year ended December 31, 1919.

EXHIBIT "B"

THE BLANK COMPANY

SUMMARY OF INCOME AND PROFIT AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 1919 AND 1918, AND COMPARISON

	YEAR ENDED DECEMBER 31, 1919		YEAR ENDED DECEMBER 31, 1918		INCREASE OR *DECREASE	
GROSS SALES:						
New York,	$2,622,238.55		$2,280,906.72		$341,331.83	
Boston,	1,507,908.85		1,217,995.33		289,913.52	
Chicago,	2,843,784.22		2,398,156.11		445,608.11	
Total,		$6,973,911.62		$5,897,058.16		$1,076,853.46
LESS TRADE DISCOUNTS, RETURNS, ALLOWANCES, AND FREIGHT,		1,091,770.48		840,838.57		250,933.91
NET SALES,		$5,882,141.14		$5,056,221.59		$ 825,919.55
COST OF GOODS SOLD,		4,258,727.75		3,898,751.99		359,975.76
GROSS PROFIT,		$1,623,413.39		$1,157,469.60		$ 465,943.79
SELLING AND GENERAL EXPENSES:						
New York,	$ 354,324.76		$ 267,708.44		$ 86,616.32	
Boston,	150,564.22		123,945.65		26,618.57	
Chicago,	397,228.23		360,875.66		36,352.57	
Total,		902,117.21		752,529.75		149,587.46
NET PROFIT,		$ 721,296.18		$ 404,939.85		$ 316,356.33
OTHER INCOME:						
Dividends on Stocks Owned,	$ 8,250.00		$ 3,750.00		$ 4,500.00	
Profit from Sale of Light and Power,	8,239.65		6,121.12		2,118.53	
Miscellaneous,	4,692.01		5,281.20		* 589.19	
Total,		21,181.66		15,152.32		6,029.34
GROSS INCOME,		$ 742,477.84		$ 420,092.17		$ 322,385.67
INCOME CHARGES:						
Cash Discounts on Sales,	$ 104,827.11		$ 89,809.44		$ 15,017.67	
Interest - Net,	113,877.45		115,066.93		* 1,189.48	
Uncollectible Accounts,	14,665.61		18,612.91		* 3,947.30	
Income and Excess Profits Taxes,	76,921.04		49,673.56		27,247.48	
Miscellaneous,	3,604.93		2,012.40		1,592.53	
Total,		313,896.14		275,175.24		38,720.90
NET INCOME,		$ 428,581.70		$ 144,916.93		$ 283,664.77
PROFIT AND LOSS CREDITS:						
Premium on Sale of Common Stock,	$ 37,500.00				$ 37,500.00	
Discount on Purchase of Preferred Stock,	500.00				500.00	
Total,		38,000.00				38,000.00
SURPLUS FOR THE YEAR AVAILABLE FOR DIVIDENDS		$ 466,581.70		$ 144,916.93		$ 321,664.77
DIVIDENDS,		235,000.00		117,500.00		117,500.00
SURPLUS FOR THE YEAR,		$ 231,581.70		$ 27,416.93		$ 204,164.77
SURPLUS AT BEGINNING OF THE YEAR,		1,318,075.73		1,290,658.80		27,416.93
SURPLUS AT END OF THE YEAR,		$1,549,657.43		$1,318,075.73		$ 231,581.70

* Typed in red.

FORM 30

THE BLANK MANUFACTURING COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE THREE YEARS ENDED DECEMBER 31, 1919, AND AVERAGE PER ANNUM

	AVERAGE PER ANNUM	TOTAL	YEAR ENDED DECEMBER 31, 1919	1918	1917
GROSS SALES,	$2,723,334.53	$8,170,003.59	$3,134,030.83	$2,619,844.57	$2,416,128.19
RETURNS AND ALLOWANCES,	192,000.69	576,002.06	267,914.93	186,586.10	121,501.03
NET SALES,	$2,531,333.84	$7,594,001.53	$2,866,115.90	$2,433,258.47	$2,294,627.16
COST OF GOODS SOLD:					
Materials Consumed,	$1,319,819.85	$3,959,459.54	$1,476,872.60	$1,323,435.65	$1,159,151.29
Direct Labor,	406,876.37	1,220,629.10	482,231.83	397,968.11	340,429.16
Indirect Labor,	68,166.46	204,499.39	74,112.09	67,192.05	63,195.25
Power, Heat, and Light,	26,824.35	80,473.04	30,127.41	24,126.22	26,219.41
Repairs,	66,894.59	200,683.78	69,533.45	72,937.42	58,212.91
Depreciation,	25,558.88	76,676.83	29,219.67	25,142.01	22,314.95
Insurance,	7,015.13	21,045.40	7,823.62	6,592.54	6,629.24
Property Taxes,	7,806.49	23,419.47	8,075.54	7,816.92	7,527.01
Factory Office Expenses,	12,618.98	37,856.94	15,612.94	12,927.56	9,318.44
Miscellaneous Factory Expenses,	24,957.32	74,871.97	29,212.41	22,147.52	23,512.04
Total,	$1,966,538.42	$5,899,615.26	$2,222,821.56	$1,960,286.00	$1,716,507.70
Less Increase in Inventory of Finished Goods and Work in Process,	45,369.92	136,109.76	184,212.21	36,514.97 *	84,617.42
Cost of Manufactured Goods Sold,	$1,921,168.50	$5,763,505.50	$2,038,609.35	$1,923,771.03	$1,801,125.12
Cost of Purchased Goods Sold,	92,487.20	277,461.60	156,329.04	92,512.84	28,619.72
Shipping Expenses,	44,450.81	133,352.43	49,835.82	44,000.37	39,516.24
Total Cost of Goods Sold,	$2,058,106.51	$6,174,319.53	$2,244,774.21	$2,060,284.24	$1,869,261.08
GROSS PROFIT,	$ 473,227.33	$1,419,682.00	$ 621,341.69	$ 372,974.23	$ 425,366.08
SELLING EXPENSES:					
Advertising,	$ 42,039.88	$ 126,119.64	$ 75,625.33	$ 26,375.40	$ 24,118.91
Salaries,	38,816.29	116,448.86	41,809.28	35,927.01	38,712.57
Commissions,	22,222.22	66,666.67	26,112.04	19,212.05	21,342.58
Traveling Expenses,	7,962.77	23,888.31	9,652.43	7,522.92	6,712.96
Miscellaneous,	5,339.07	16,017.20	5,329.48	5,612.47	5,075.25
Total,	$ 116,380.23	$ 349,140.68	$ 158,528.56	$ 94,649.85	$ 95,962.27
SELLING PROFIT,	$ 356,847.10	$1,070,541.32	$ 462,813.13	$ 278,324.38	$ 329,403.81
GENERAL EXPENSES:					
Salaries of Officers,	$ 42,500.00	$ 127,500.00	$ 45,000.00	$ 45,000.00	$ 37,500.00
Salaries of Clerks,	51,864.02	155,592.05	52,852.24	54,098.96	48,640.85
Stationery, Printing, and Postage,	6,959.65	20,878.96	7,137.13	6,714.29	7,027.54
Telephone and Telegraph,	3,182.33	9,547.01	3,295.92	3,083.95	3,167.14
Corporation Taxes,	4,796.78	14,390.34	4,627.15	5,112.90	4,650.29
Legal and Auditing,	2,711.40	8,134.19	2,401.97	3,015.72	2,716.50
Contributions,	5,250.00	15,750.00	5,600.00	8,900.00	1,250.00
Miscellaneous,	6,099.95	18,299.86	8,962.57	5,622.01	3,715.28
Total,	$ 123,364.13	$ 370,092.41	$ 129,876.98	$ 131,547.83	$ 108,667.60
NET PROFIT FROM SALES - (Forward),	$ 233,482.97	$ 700,448.91	$ 332,936.15	$ 146,776.55	$ 220,736.21

* Typed in red.

(Continued) - 1.

FORM 30
THE BLANK MANUFACTURING COMPANY
STATEMENT OF INCOME AND PROFIT AND LOSS, ETC.

	AVERAGE PER ANNUM	TOTAL	..........YEAR ENDED DECEMBER 31,.......... 1919	1918	1917
NET PROFIT FROM SALES - (Forward),...........	$ 233,482.97	$ 700,448.91	$ 332,936.15	$ 146,776.55	$ 220,736.21
OTHER INCOME CREDITS:					
Settlement with United States Government for Cancellation of Contracts,...............	$ 8,580.02	$ 25,740.07	$ 25,740.07		
Cash Discounts on Purchases,...............	6,148.27	18,444.80	6,712.91	$ 6,119.42	$ 5,612.47
Interest:					
Liberty Loan Bonds,.......................	1,946.04	5,838.12	3,204.40	2,117.68	516.04
Bank Balances,............................	3,157.61	9,472.83	2,809.32	4,293.01	2,370.50
Notes and Accounts Receivable,............	3,359.85	10,079.54	3,012.45	3,819.56	3,247.53
Dividend on Stock of A. B. Company,.........	133.33	400.00	200.00	200.00	
Profit from Sale of Raw Material,...........	406.57	1,219.72	1,152.22	67.50	
Miscellaneous,..............................	883.71	2,651.12	840.72	516.21	1,294.19
Total,........................	$ 24,615.40	$ 73,846.20	$ 43,672.09	$ 17,133.38	$ 13,040.73
GROSS INCOME,.................................	$ 258,098.37	$ 774,295.11	$ 376,608.24	$ 163,909.93	$ 233,776.94
INCOME CHARGES:					
Income and Excess Profits Taxes,............	$ 32,983.14	$ 98,949.41	$ 65,912.40	$ 15,112.01	$ 17,925.00
Interest on Notes Payable,..................	16,574.77	49,724.32	23,171.53	19,336.90	7,215.89
Amortization of War Facilities,.............	11,545.66	34,636.99	34,636.99		
Uncollectible Accounts, Less Recoveries,....	2,921.25	8,763.74	2,908.42	4,212.57	1,642.75
Loss from Sale of Liberty Loan Bonds,.......	340.00	1,020.00		1,020.00	
Miscellaneous,..............................	751.83	2,255.50	1,275.32	814.00	166.18
Total,........................	$ 65,116.65	$ 195,349.96	$ 127,904.66	$ 40,495.48	$ 26,949.82
NET INCOME,...................................	$ 192,981.72	$ 578,945.15	$ 248,703.58	$ 123,414.45	$ 206,827.12
SURPLUS AT BEGINNING OF THE PERIOD,...........		1,214,666.91	1,123,587.45	1,238,606.50	1,214,666.91
PROFIT AND LOSS CREDITS - MISCELLANEOUS ADJUSTMENTS APPLICABLE TO PRIOR PERIODS,......		17,560.55	1,267.58 *	819.50	17,112.47
GROSS SURPLUS,................................		$1,811,172.61	$1,373,558.61	$1,361,201.45	$1,438,606.50
PROFIT AND LOSS CHARGES:					
Loss from Sale of Plant Property,...........		$ 37,614.00		$ 37,614.00	
Dividends,..................................		700,000.00	$ 300,000.00	200,000.00	$ 200,000.00
Total,........................		$ 737,614.00	$ 300,000.00	$ 237,614.00	$ 200,000.00
SURPLUS AT END OF THE PERIOD,.................		$1,073,558.61	$1,073,558.61	$1,123,587.45	$1,238,606.50

* Typed in red.

FORM 31

THE BLANK BAKERY & RESTAURANT COMPANY

STATEMENT OF INCOME AND PROFIT AND LOSS,
BY DEPARTMENTS, FOR THE SIX MONTHS ENDED APRIL 30, 1920

	TOTAL	ELIMINA-TIONS	BAKERY	RESTAURANTS - Schedule #1
SALES,	$1,489,079.24		$164,517.95	$1,324,561.29
TRANSFERS:				
Food Supplies,		$585,240.84	585,240.84	
Crockery and Other Supplies,		42,619.22	42,619.22	
TOTAL SALES AND TRANSFERS,	$1,489,079.24	$627,860.06	$792,378.01	$1,324,561.29
COST AND EXPENSES:				
Food Supplies,	$ 691,671.85	$585,240.84	$621,219.42	$ 655,693.27
Crockery Supplies,	27,810.93	24,017.22	22,612.14	29,216.01
Silverware Supplies,	2,478.09	1,796.14	1,201.29	3,072.94
Storeroom Sundries,	29,131.11	16,805.86	26,715.41	19,221.56
Linen,	23,974.52			23,974.52
Salaries of Managers,	29,685.54			29,685.54
Wages,	203,143.71		63,017.52	140,126.19
Rent (Less Rental from Sub-tenants),	68,629.51		3,000.00	65,629.51
Advertising,	6,092.50		1,525.00	4,567.50
Heat, Light, and Power,	44,903.86		14,274.18	30,629.68
Water,	5,654.74		1,428.43	4,226.31
Refrigeration,	11,042.02		306.68	10,735.34
Laundry,	14,341.89		1,219.24	13,122.65
Telephone Service,	2,360.08		238.68	2,121.40
Insurance,	5,285.94		2,573.75	2,712.19
Repairs,	19,276.07		3,133.29	16,142.78
Depreciation of Furniture and Fixtures,	19,184.02		1,957.04	17,226.98
Automobile Expenses, including Depreciation,	5,031.56		4,632.05	399.51
Amortization of Improvements to Leased Property,	9,825.70		1,710.94	8,114.76
Taxes (Other than Income and Excess Profits Taxes),	9,554.00		2,386.00	7,168.00
Insurance,	5,372.71		986.58	4,386.13
Miscellaneous Operating Expenses,	7,810.90		1,264.43	6,546.47
Salaries of Officers,	23,130.48		4,015.17	19,115.31
General Office Expenses,	8,292.95		1,439.55	6,853.40
Legal and Auditing Expenses,	4,116.91		1,541.06	2,575.85
Miscellaneous General Expenses,	9,528.45		2,716.44	6,812.01
Total,	$1,287,330.04	$627,860.06	$785,114.29	$1,130,075.81
PROFIT FROM OPERATIONS,	$ 201,749.20		$ 7,263.72	$ 194,485.48
OTHER INCOME CREDITS - CASH DISCOUNTS, INTEREST, AND SUNDRY COMMISSIONS,	8,497.46			
GROSS INCOME,	$ 210,246.66			
INCOME CHARGES - INTEREST AND FEDERAL TAXES,	57,019.62			
NET INCOME,	$ 153,227.04			
SURPLUS, NOVEMBER 1, 1919, ... $107,868.48 Less Adjustments Applicable to Prior Period - Net, ... 29,618.19	78,250.29			
GROSS SURPLUS,	$ 231,477.33			
DIVIDENDS,	50,000.00			
SURPLUS, APRIL 30, 1920,	$ 181,477.33			

CHAPTER IV

CONSOLIDATED STATEMENTS

There has recently been so much discussion of the subject of consolidation of the accounts of affiliated companies, especially with regard to consolidated tax returns, that it seems hardly necessary to undertake to prove the desirability or necessity for the preparation of consolidated financial statements for groups of companies in order to exhibit true conditions. Statements showing the financial condition and operations of a holding or parent company, even if accompanied by data bearing upon the value of its investments in subsidiary companies, or by complete statements for those companies, do not accomplish the result to be desired, which is to disclose the accounts of the group of companies as an entity, conforming to actual operating conditions.

Under present conditions of inter-corporate relations in this country, perhaps most of the corporations a majority of whose capital stocks are owned by other corporations are in effect merely branches of the latter, having been organized or continued as separate corporations merely for reasons of expediency. It follows, therefore, that to exhibit the true condition of the companies all inter-company balances in asset and liability accounts should be eliminated, and the actual assets and liabilities of the subsidiary companies should be substituted for the representative investment account or accounts on the books of the parent company; also, to exhibit the actual opera-

[illegible]

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tions of the group, all inter-company transactions should be eliminated.

Consolidation of the accounts is appropriate whenever the ownership in one company is all, or substantially all, vested in another company. In doubtful cases, where the ownership is between, say, fifty per cent and ninety-five per cent, judgment must be exercised as to whether the true conditions are better expressed by individual or consolidated statements.

It is also appropriate in some cases to consolidate the accounts of companies which are not related directly by stock ownership but are controlled by the same interests. This involves merely the elimination of inter-company balances and transactions and the combination of the other accounts.

In technical accounting parlance, the word "consolidated" is confined to the accounts of two or more legally separate businesses. The term should not be applied to the accounts of the several branches or departments of one business.

There are two classes of consolidated statements. Those of one class exhibit merely the result of the consolidation and those of the other show on one sheet the accounts of each of the companies, the eliminations, and the consolidated total. The former are usually entitled "Consolidated Balance Sheet" and "Statement (or Summary, or Condensed Statement) of Consolidated Income and Profit and Loss;" the latter, "Balance Sheets and Consolidation" and "Statements of Income and Profit and Loss and Consolidation." The choice of these forms obvi-

ously depends upon the purpose for which they are prepared: in some cases only the aggregate figures are desired; in other cases, when statements for one or more of the constituent companies are desired, it is expedient to show the operation of consolidation rather than to prepare separate statements for the consolidation and for the companies individually.

In theory, all inter-company balances receivable and payable should be eliminated in consolidated statements, but in actual practice there are often current open items of relatively inconsiderable amount which are in transit between companies or which have not been cleared in the regular course of business, the adjustment of which by the accountant is not essential. If taken up on the books such minor adjustments would unnecessarily interfere with the clerical routine; and if not taken up on the books, they would have the generally undesirable effect of making the statement different from the books. Therefore, it is usually better to eliminate the smaller balance, leaving the remainder of the larger balance in Accounts Receivable or Accounts Payable. In exceptional cases the uneliminated amounts may be specifically described as such in the consolidated balance sheet. If it is necessary in the preparation of an audit report to make adjustments in the preparation of statements, which are not taken up on the books, the details should be included in the report or in a supplemental memorandum.

Any difference between the amounts carried by one company as an asset and by another company as a liability, in

respect of the same indebtedness, should be adjusted. If, for example, company "A" has borrowed from company "B," and the latter company has for some reason written off part of the asset account (or of the book value of notes if notes have been given) in the preparation of a consolidated balance sheet the consolidated surplus should be increased by means of a red figure in the elimination column, so that the entire amount of the liability carried on the books of company "A" may be eliminated. If instead of reducing the asset account company "B" had established a reserve, the amount of the reserve would be eliminated against the increase in surplus.

In a consolidated profit and loss statement, accompanying a consolidated balance sheet, effect should also be given to any adjustment of surplus such as the foregoing. If the adjustment of surplus is a reversal of a charge or credit during the period covered by the statement and shown therein, the increase or decrease of the surplus at the end of the period will usually be sufficiently explained by being offset against that item; otherwise it is generally necessary to explain the adjustment in a footnote.

The procedure in the case of bonds of one company purchased by another at a discount is the same as for differences in accounts or notes as explained above, unless the issuing company sold the bonds at a discount and is carrying in its accounts some part of such discount as a deferred charge to profit and loss. As an illustration, let it be assumed that

company "A" owns $100,000.00 par value of bonds of company "B," which were purchased for $95,000.00 and are carried at cost; the bonds were sold by company "B" to underwriters at 90; the term of the bonds is twenty years, of which two have elapsed, so that, as to the $100,000.00 of bonds in question, company "B" is carrying unamortized bond discount of $9,000.00. The eliminations in this case would be as follows:

Assets:		
Bond Investment...........	$ 95,000.00	
Unamortized Bond Discount..	9,000.00	$104,000.00
Liabilities:		
Bonds......................	$100,000.00	
Surplus....................	4,000.00	104,000.00

In the foregoing example, company "B" is regarded, for the purpose of the consolidation, as having a net liability on account of these bonds of only $91,000.00; for this claim against the property of company "B," company "A" has paid $95,000.00, or $4,000.00 more than the bonds are now worth, which amount must be treated as a loss. If the bonds had been purchased by company "A" at the same price at the date of issue, the difference between the accounts of the two companies to be adjusted by charge against surplus, representing the excess of the payment by company "A" over the cash received by company "B," would have been $5,000.00. However, $1,000.00 has already been charged to surplus through amortization of bond discount.

As stated, the foregoing example is predicated upon the assumption that company "A" continues to carry the bonds at

cost. Of course, that company might have kept its accounts properly, so that the book value of the bonds would be increased periodically by credits to profit and loss, with a view to carrying them at par at maturity, in which case the book value might closely approximate the par value less the unextinguished discount on the books of company "B." In any event, the procedure exemplified in the foregoing will be found to apply, with such adaptation as may be necessary. If, for example, the bonds had been purchased by company "A" at 90, the other conditions being the same as above, there would be an increase in the consolidated surplus of $1,000.00, instead of a decrease of $4,000.00.

The most troublesome feature in the preparation of consolidated balance sheets is the adjusting of the difference between the value at which the stocks of subsidiary companies are carried on the books of the parent company and their book value at the date of acquisition; i.e., their par value (or stated value, in the case of stocks without par value) and the surplus at that time.

It seems clear that the surplus at the date of acquisition should be taken into consideration, as (assuming for the present that all the stock is acquired) all the net assets of the subsidiary company, represented by the stated value of the capital stock and the surplus, were acquired. Take a hypothetical case where the stock is $100,000.00 and the surplus $50,000.00, the net assets, represented by the stock, being purchased for $150,000.00. It would manifestly

be illogical to state that the parent company made a profit of $50,000.00 in the purchase. If any part of the surplus of $50,000.00 is paid out in dividends it is in effect a refund of part of the purchase price of the stock and should be credited to the investment account on the books of the holding company. It follows, then, that the par value of the stock plus the surplus at the date of acquisition should be eliminated against the investment account on the books of the holding company.

If the holding company paid more than $150,000.00 for the stock, it paid for good-will; therefore, any excess of the investment valuation of the stock over the par value and the surplus at the date of acquisition should be treated in the consolidation as good-will. If the holding company paid less than $150,000.00 for the stock, the excess of $150,000.00 over the cost is a profit, but not one that should be shown in a statement as derived from operations; therefore, any excess of the par value of the stock plus the surplus at the date of acquisition over the investment value on the books of the holding company should be treated as capital surplus, unless the holding company has set up a valuation of good-will directly or indirectly in connection with the purchase, in which latter case the excess should be deducted from the good-will.

When it is stated on the one hand that good-will should be charged, and on the other hand that capital surplus should be credited, it is not intended to prescribe the use of those terms exclusively. The only essential point is that the

facts be disclosed as clearly as practicable. It would be appropriate to describe the balance sheet asset item specifically in some such language as "Excess of Cost (or Investment Value) of Stock of Subsidiary Company over its Value on the Books of that Company at Date of Acquisition," and the liability item as "Excess of Par Value of Stock of Subsidiary Company and Surplus at Date of Acquisition over its Cost (or Investment Valuation)."

In many cases the amount of the surplus of the subsidiary at the date of acquisition is such a small proportion of the total surplus at the date of the balance sheet that no misunderstanding could result from not disturbing the surplus but eliminating only the par value of the stock. In this, as in the elimination of inter-company balances, practical considerations, rather than pure theory, should govern, especially if there is any objection on the part of the company officials to reducing the consolidated surplus. If the amount is considerable and there is objection to the elimination, practically the same effect can be obtained by showing two classes of surplus: one including the earnings of the subsidiary as a part of the consolidation and the other representing its earnings prior to its entering into the consolidation.

In some cases practically correct results may be obtained by a method which is apparently incorrect but which may be employed on account of its relative simplicity. For illustration, let the following facts be assumed:

Par value of capital stock of subsidiary company - all acquired	$ 50,000.00
Surplus at date of acquisition	30,000.00
Cost of stock to holding company	70,000.00
Combined surplus at date of balance sheet	120,000.00

As the holding company acquired net assets of $80,000.00 at a cost of $70,000.00, there would be a capital surplus of $10,000.00. The free consolidated surplus at the date of the balance sheet would be $90,000.00 ($120,000.00 less $30,000.00). The two surplus items might properly be shown on the balance sheet as follows:

Surplus:	
Profit and Loss Surplus, per Exhibit "B"	$ 90,000.00
Excess of net assets of subsidiary company at date of acquisition over cost of stock to holding company	10,000.00
Total Surplus	$100,000.00

The alternative method of producing practically the same result is as follows:

Surplus:	
Surplus per Exhibit "B" (including $30,000.00 surplus of subsidiary company at date of acquisition by holding company)	$120,000.00
Less excess of cost over par value of stock of subsidiary company	20,000.00
Net Surplus	$100,000.00

The foregoing references to Exhibit "B" are based upon the assumption that in the first example the surplus of the subsidiary at the date of acquisition has been dropped from

that statement, and that in the second example it has not.

The latter method exemplified above could not be employed if the surplus of the subsidiary at the date of acquisition were $10,000.00 instead of $30,000.00 - in other words, if the net assets of the subsidiary were less than the cost of the holding company. In such a case the difference would represent good-will, which should not generally be deducted from the surplus.

In determining the date of acquisition when the stock has been purchased at different dates it seems to be proper to take the date when control was acquired, or when the last considerable block of stock was purchased. In all cases it may be necessary to select the nearest date when the books were closed.

When the interest of the holding company in the subsidiary is less than the whole, the procedure differs, as it is then necessary to show in the balance sheet the interest of the minority stockholders of the subsidiary to the extent of the par value of their stock, and it is desirable to show also their interest in the surplus of the subsidiary or their share of its deficit. Assuming that the subsidiary has a surplus, the minority interest may be shown by either of these methods:

(1) Capital Stock:
  Holding Company
  Subsidiary Company - Minority
    Stock Held by the Public

      Total

Surplus:
  Applicable to Stock of
    Holding Company

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Applicable to Minority Stock
of Subsidiary Company

Total

(2) Minority Stockholders of Subsidiary Company:
Capital Stock
Surplus

Total

Equity of Stockholders of Holding Company:
Capital Stock
Surplus

Total

In determining the interest of minority stockholders when preferred stock is involved, the value of the preferred stock is usually taken at the par value plus accrued dividends to date. The value will be different if the preferred is entitled to any share in the profits in excess of the stated dividend rate.

In eliminating the investment account for the stock of the subsidiary when less than the whole of its stock is owned, only the holding company's proportion of the surplus at the date of acquisition can be considered; but the minority stockholders' interest in that surplus must be recognized. The following facts are assumed for the purpose of exemplifying the procedure under such conditions:

Capital stock of subsidiary company,.......	$100,000.00
Surplus of subsidiary company at date of acquisition,.............................	50,000.00
Proportion of stock acquired by holding company,.................................	90%
Value of stock acquired by holding company	135,000.00
Cost to holding company,..................	160,000.00
Surplus of subsidiary company at date of balance sheet,........................	70,000.00

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[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

In the consolidation the liability to the minority stockholders will be shown as follows:

Capital Stock, ...	$10,000.00
Surplus, ...	7,000.00
Total, ...	$17,000.00

An asset of $25,000.00 will be set up, designated as "Good-Will," or as "Excess of Cost of Stook of Subsidiary Company over its Par Value and the Surplus Applicable Thereto."

The eliminations from the specific asset and liability items will be as follows:

Asset - Investment Account, ...		$160,000.00
Liabilities:		
Capital Stock, ...	$100,000.00	
Surplus (balance at date of acquisition plus 10% of increase), ...	52,000.00	152,000.00
Net Asset, ...		$ 8,000.00

for which will be substituted:

Asset - Good-Will (excess of investment account over value at date of acquisition), ...	$ 25,000.00
Liabilities - Minority Stockholders, ...	17,000.00
Net Asset, ...	$ 8,000.00

From the standpoint of the balance sheet alone the foregoing solution is complete, but consideration should be given to the effect upon the profit and loss statement, in which the surplus is carried forward from year to year. It will be seen that we have a minority interest of $5,000.00 in the surplus at the date of acquisition by the holding company. If the entire sur-

plus of $70,000.00 were shown in the profit and loss statement, deduction could not be made therefrom of the interest of the holding company in the surplus at the date of acquisition, viz., $45,000.00, as that would leave $25,000.00 as the surplus earned since acquisition, divisible into 1,000 shares, whereas only $20,000.00 was earned during that period and $5,000.00 is divisible into 100 shares. Therefore, the entire surplus at the date of acquisition, $50,000.00, should be eliminated from the profit and loss statement and carried in separate accounts, $45,000.00 being carried as surplus pertaining to the majority stock and $5,000.00 as surplus pertaining to the minority stock. Then, if full details of the division of surplus are to be shown on the balance sheet, reference being made to the profit and loss statement, it should be shown somewhat as follows, assuming that the surplus of the holding company from other sources is $100,000.00:

Surplus:	
Profit and Loss Surplus:	
Applicable to Stock of Holding Company,........	$118,000.00
Applicable to Minority Stock of Subsidiary Company,......................................	2,000.00
Total per Exhibit "B",.......	$120,000.00
Surplus of Subsidiary Company at Date of Acquisition Applicable to Minority Stock,............	5,000.00
Total Surplus,..........	$125,000.00

When goods are sold by one affiliated company to another at a profit to the seller, it is necessary to eliminate not only the inter-company sales and purchases but also the profit taken by the seller on such of the goods as remain in the

hands of the buyer, thereby reducing the consolidated surplus. This may be effected in the form of an elimination from the total surplus, and the creation of a reserve, in the consolidated figures only, by means of a red figure in the elimination column. In correctly stating the profits for a period, consideration should also be given to the inflation of the consolidated inventory at the beginning of the period, the surplus being reduced in the same manner as at the end.

In all audit reports containing consolidated statements, the names of the subsidiary companies should be shown so that there can be no misunderstanding as to what companies are included. This information is generally given in the presentation, but if there are only two or three names they may also be shown in the headings of the statements. Of course, the latter procedure is not necessary in statements showing the details of consolidation, when the names are shown in the column headings.

* * * * *

Following are specimen forms of consolidated statements, designed to show the application of the principles enunciated in the foregoing.

Form 32 is a consolidated balance sheet (after applying eliminations) and comparison with a prior date.

Form 33 shows the balance sheets of each of the companies and the eliminations, resulting in the consolidation shown in Form 32. These forms exemplify one method of showing the

interest of minority stockholders in the capital stock and surplus, and also the addition to intangible values of the excess of cost of stocks of subsidiaries over their par value - which has been assumed in this case to be approximately their actual value as shown by the books of the subsidiaries at the time of acquisition by the parent company. There is also illustrated in these balance sheets and in the accompanying income and profit and loss statements (Forms 34 and 35), the procedure in eliminating differences between asset values and face values of inter-company indebtedness.

The eliminations in this form, and in Forms 37 and 38, are numbered for the convenience of the reader in locating the corresponding items.

Forms 34 and 35 are, respectively, summaries of income and of profit and loss of each of the companies and consolidation, supporting Forms 32 and 33. Here are exemplified various eliminations of inter-company charges and credits, including the reversal of a charge representing provision for loss on notes of a subsidiary and the addition to surplus of the difference between the book value of bonds of a subsidiary owned by the parent company over their par value less the related proportion of unamortized bond discount.

Form 36 is a consolidated balance sheet exemplifying particularly the treatment of surplus of subsidiary companies at the dates of acquisition when there is a minority interest in the subsidiaries and when it is desired to render a statement

of income and profit and loss showing the surplus earned by the consolidated companies.

Form 37 shows the balance sheets of three companies and consolidation, in which is illustrated another method of applying the difference between cost and actual value (as shown by the books) of stocks of subsidiary companies. In this balance sheet and the accompanying statement of income and profit and loss (Form 38) are shown the deduction from the deficit at the date of the balance sheet of the deficit and surplus of subsidiaries at the dates of acquisition.

Form 38 shows the statements of income and profit and loss and consolidation supporting Form 37. It contains several eliminations affecting the operating accounts.

FORM 32

BLANK RAILROAD & ELECTRIC CORPORATION
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1919,
AND COMPARISON WITH DECEMBER 31, 1918

	DECEMBER 31, 1919	INCREASE *DECREASE
ASSETS		
PROPERTY, FRANCHISES, ETC.,	$6,395,378.49	$481,312.50
SECURITIES OWNED,	$ 278,514.01	$ 50,000.00
SINKING FUNDS - CASH AND ACCRUED INTEREST,	$ 24,020.10	*$ 3,762.50
CURRENT ASSETS:		
Cash,	$ 212,771.26	$ 19,612.71
Notes Receivable,	58,119.17	13,212.95
Accounts Receivable, Less Reserve,	80,019.32	* 23,514.23
Accrued Interest Receivable,	82,166.92	5,327.00
Materials and Supplies,	453,664.59	95,026.18
Total Current Assets,	$ 886,741.26	$109,664.61
DEFERRED CHARGES:		
Unamortized Debt Discount and Expense,	$ 162,302.37	*$ 12,516.54
Work Under Construction,	23,088.79	18,124.90
Prepaid Insurance, Taxes, etc.,	50,909.37	7,625.12
Total Deferred Charges,	$ 236,300.53	$ 13,233.48
TOTAL,	$7,820,954.39	$650,448.09
LIABILITIES		
CAPITAL STOCK:		
Blank Railroad & Electric Corporation,	$2,500,000.00	
Minority Stock of Subsidiary Companies,	175,500.00	*$ 15,200.00
Total Capital Stock,	$2,675,500.00	*$ 15,200.00
FUNDED DEBT (Less Bonds Held in Sinking Funds):		
Blank Railroad & Electric Corporation,	$1,762,000.00	$154,000.00
Subsidiary Companies – Bonds Held by Public,	1,095,000.00	* 45,000.00
Total Funded Debt,	$2,857,000.00	$109,000.00
CURRENT LIABILITIES:		
Notes Payable,	$ 342,082.00	$120,375.00
Accounts Payable,	664,696.52	209,316.92
Accrued Interest, Taxes, etc.,	176,907.49	89,653.04
Total Current Liabilities,	$1,183,686.01	$419,344.96
RESERVES:		
Renewals and Replacements,	$ 639,701.25	$ 52,326.19
Injuries and Damages,	32,727.89	* 5,041.15
Total Reserves,	$ 672,429.14	$ 47,285.04
SURPLUS, PER EXHIBIT "D":		
Applicable to Stock of Blank Railroad & Electric Corporation,	$ 405,024.32	$ 83,706.97
Applicable to Minority Stocks of Subsidiary Companies,	27,314.92	6,311.12
Total Surplus,	$ 432,339.24	$ 90,018.09
TOTAL,	$7,820,954.39	$650,448.09

* Typed in red.

EXHIBIT "A"

NET INCOME, ...	$283,744.17	$121,974.17	$105,512.51	$212,354.17	$ 87,851.66

* Typed in red.
** Proportion applicable to bonds of Subsidiary "A" held by the Blank Railroad & Electric Corporation.

EXHIBIT "C"

FORM 33

BLANK RAILROAD & ELECTRIC CORPORATION AND SUBSIDIARY COMPANIES

BALANCE SHEETS, DECEMBER 31, 1919, AND CONSOLIDATION

	........CONSOLIDATION.......... TOTAL	ELIMINATIONS	BLANK RAILROAD & ELECTRIC CORPORATION	SUBSIDIARY "A"	SUBSIDIARY "B"
ASSETS					
PROPERTY, FRANCHISES, ETC.,	$6,395,378.49	(1)* $ 593,071.25		$4,463,902.51	$1,338,404.73
STOCKS OF SUBSIDIARY COMPANIES,		(1) $2,167,571.25	$2,167,571.25		
BONDS OF SUBSIDIARY "A",		(2) $1,204,500.00	$1,204,500.00		
OTHER SECURITIES,	$ 278,514.01		$ 203,100.00	$ 56,342.01	$ 19,072.00
SINKING FUNDS - CASH AND ACCRUED INTEREST,	$ 24,020.10		$ 13,680.08	$ 6,427.56	$ 3,912.46
CURRENT ASSETS:					
Cash,	$ 212,771.28		$ 98,885.63	$ 71,304.90	$ 42,580.73
Notes Receivable,	58,119.17			42,500.00	15,619.17
Accounts Receivable, Less Reserve,	80,019.32			74,285.96	5,733.38
Accrued Interest Receivable,	82,166.92		80,050.00	1,400.00	716.92
Materials and Supplies,	453,664.59			319,324.68	134,339.91
Total Current Assets,	$ 886,741.26		$ 178,935.63	$ 508,815.54	$ 198,990.09
DUE FROM AFFILIATED COMPANIES:					
Notes,		(3) $ 450,729.62	$ 398,229.62	$ 52,500.00	
Accounts and Accrued Interest,		(4) 293,914.82	211,085.34	43,212.71	$ 38,616.77
Total Due from Affiliated Companies,		$ 744,644.44	$ 609,314.96	$ 95,712.71	$ 38,616.77
DEFERRED CHARGES:					
Unamortized Debt Discount and Expense,	$ 162,302.37	(2) $ 68,307.50	$ 82,563.08	$ 104,827.50	$ 41,119.29
Work Under Construction,	23,088.79			23,088.79	
Prepaid Insurance, Taxes, etc.,	50,909.37		4,728.00	44,003.44	2,177.83
Total Deferred Charges,	$ 236,300.53	$ 66,307.50	$ 87,291.08	$ 172,019.73	$ 43,297.22
TOTAL,	$7,820,854.39	$3,589,951.84	$4,464,393.00	$5,303,220.06	$1,643,293.27
LIABILITIES					
CAPITAL STOCK:					
Blank Railroad & Electric Corporation,	$2,500,000.00		$2,500,000.00		
Subsidiary Companies,	175,500.00	(1) $1,574,500.00		$1,250,000.00	$ 500,000.00
Total Capital Stock,	$2,675,500.00	$1,574,500.00	$2,500,000.00	$1,250,000.00	$ 500,000.00
FUNDED DEBT (Less Bonds Held in Sinking Funds):					
Blank Railroad & Electric Corporation,	$1,762,000.00		$1,762,000.00		
Subsidiary Companies,	1,095,000.00	(2) $1,263,000.00		$1,986,000.00	$ 372,000.00
Total Funded Debt,	$2,857,000.00	$1,263,000.00	$1,762,000.00	$1,986,000.00	$ 372,000.00
CURRENT LIABILITIES:					
Notes Payable,	$ 342,082.00			$ 282,082.00	$ 80,000.00
Accounts Payable,	664,696.52		$ 2,531.54	549,982.71	112,182.27
Accrued Interest, Taxes, etc.,	176,907.49		58,319.74	101,395.25	17,192.50
Total Current Liabilities,	$1,183,686.01		$ 60,851.28	$ 933,459.88	$ 189,374.77
DUE TO AFFILIATED COMPANIES:					
Notes,		(3) $ 509,135.83		$ 312,316.42	$ 186,819.51
Accounts and Accrued Interest,		(4) 293,914.82	$ 37,230.53	192,384.71	64,318.58
Total Due to Affiliated Companies,		$ 803,050.75	$ 37,230.53	$ 504,681.13	$ 251,138.09
RESERVES:					
Renewals and Replacements,	$ 639,701.25			$ 420,088.34	$ 219,812.91
Injuries and Damages,	32,727.89			23,987.75	8,760.14
Total Reserves,	$ 672,429.14			$ 444,056.09	$ 228,373.05
SURPLUS, PER EXHIBIT "D",	$ 432,339.24	(a)* $ 50,598.81	$ 104,311.19	$ 185,022.68	$ 92,406.36
TOTAL,	$7,820,954.39	$3,589,951.94	$4,464,393.00	$5,303,220.08	$1,643,293.27

* Typed in red.

(a) Decrease in surplus, comprising:

(3) Increase from notes,	$58,406.31
(2) Decrease from bonds, etc.,	7,807.50
Net Increase,	$50,588.81

EXHIBIT "B"

FORM 34

BLANK RAILROAD & ELECTRIC CORPORATION AND SUBSIDIARY COMPANIES

SUMMARIES OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1919, AND CONSOLIDATION

	CONSOLIDATION TOTAL	CONSOLIDATION ELIMINATIONS	BLANK RAILROAD & ELECTRIC CORPORATION	SUBSIDIARY "A"	SUBSIDIARY "B"
RAILWAY DEPARTMENT:					
Gross Earnings,	$553,101.59			$312,337.54	$240,764.05
Operating Expenses and Taxes,	363,308.85			235,256.50	128,052.35
Net Earnings,	$189,792.74			$ 77,081.04	$112,711.70
LIGHT AND POWER DEPARTMENT:					
Gross Earnings,	$852,431.82			$656,265.20	$196,166.62
Operating Expenses and Taxes,	391,571.17			261,225.39	130,345.78
Net Earnings,	$460,860.65			$395,039.81	$ 65,820.84
NET EARNINGS FROM OPERATIONS,	$650,653.39			$472,120.85	$178,532.54
ADMINISTRATIVE AND GENERAL EXPENSES,	32,619.27		$ 32,619.27		
NET EARNINGS,	$618,034.12		*$ 32,619.27	$472,120.85	$178,532.54
OTHER INCOME CREDITS:					
Dividends on Stocks Owned,	$ 3,380.50	$125,960.00	$129,340.50		
Interest on Bonds Owned,	9,256.00	63,150.00	68,540.00	$ 3,297.50	$ 568.50
Interest on Notes and Accounts Receivable,	8,820.11	34,612.98	35,213.43	5,792.01	2,427.65
Rentals,	12,564.64			12,564.64	
Unclaimed Wages Written Off,	409.31			392.50	16.81
Total,	$ 34,430.56	$223,722.98	$233,093.93	$ 22,046.65	$ 3,012.96
GROSS INCOME,	$652,464.68	$223,722.98	$200,474.66	$494,167.50	$181,545.50
INCOME CHARGES:					
Interest on Bonds,	$141,640.00	$ 63,150.00	$ 90,050.00	$ 95,750.00	$ 18,890.00
Interest on Notes and Accounts Payable,	37,025.29	34,612.98		52,319.22	19,319.05
Amortization of Debt Discount and Expense,	8,530.71	** 3,985.83	4,912.15	6,132.04	1,472.35
Notes and Accounts Receivable Written Off,	11,524.51			7,612.07	3,912.44
Provision for Renewals and Replacements,	70,000.00			50,000.00	20,000.00
Income and Excess Profits Taxes (Estimated),	100,000.00			70,000.00	30,000.00
Total,	$368,720.51	$101,748.81	$ 94,962.15	$281,813.33	$ 93,693.84
NET INCOME,	$283,744.17	$121,974.17	$105,512.51	$212,354.17	$ 87,851.66

* Typed in red.
** Proportion applicable to bonds of Subsidiary "A" held by the Blank Railroad & Electric Corporation.

EXHIBIT "C"

FORM 35

BLANK RAILROAD & ELECTRIC CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1919, AND CONSOLIDATION

	.......CONSOLIDATION....... TOTAL	ELIMINATIONS	BLANK RAILROAD & ELECTRIC CORPORATION	SUBSIDIARY "A"	SUBSIDIARY "B"
SURPLUS, JANUARY 1, 1919,....................	$342,321.15	(a)$ 11,793.33	$132,027.14	$147,754.39	$ 74,332.95
PROFIT AND LOSS CREDITS:					
Net Income for the Year, per Exhibit "C",....	$283,744.17	$121,974.17	$105,512.51	$212,354.17	$ 87,851.66
Sinking Fund Reserves Reverted to Surplus,...	74,194.08		69,494.08		4,700.00
Discount on Bonds Purchased for Sinking Fund,	6,741.66		3,070.00	1,652.44	2,019.22
Profit from Sale of Property,................	8,539.79			8,539.79	
Interest on Notes and Accounts - Prior Period		2,613.77	2,613.77		
Miscellaneous Credits Applicable to Prior Periods,..................................	1,781.18			1,727.98	53.20
Total,....................	$375,000.88	$124,587.94	$180,690.36	$224,274.38	$ 94,624.08
GROSS SURPLUS,..................................	$717,322.03	$136,381.27	$312,717.50	$372,028.77	$168,957.03
PROFIT AND LOSS CHARGES:					
Interest on Notes and Accounts - Prior Period		$ 2,613.77		$ 2,613.77	
Income and Excess Profits Taxes for the Year 1918,.................................	$120,942.79			84,392.12	$ 36,550.67
Provision for Loss on Notes of Subsidiary Companies,..............................		58,406.31	$ 58,406.31		
Total,....................	$120,942.79	$ 61,020.08	$ 58,406.31	$ 87,005.89	$ 36,550.67
SURPLUS AVAILABLE FOR DIVIDENDS,...............	$596,379.24	$ 75,361.19	$254,311.19	$285,022.88	$132,406.36
DIVIDENDS,......................................	164,040.00	125,960.00	150,000.00	100,000.00	40,000.00
SURPLUS, DECEMBER 31, 1919:					
Applicable to Stock of Blank Railroad & Electric Corporation,.....................	$405,024.32	(b)*$ 50,598.81	$104,311.19	$166,367.18	$ 83,747.14
Applicable to Minority Stocks of Subsidiary Companies,..............................	27,314.92			18,655.70	8,659.22
TOTAL,...............	$432,339.24	*$ 50,598.81	$104,311.19	$185,022.88	$ 92,406.36

* Typed in red.

(a) Represents the excess of the cost of bonds of Subsidiary "A" held by the Blank Railroad & Electric Corporation over their par value, less proportion of unamortized discount at January 1, 1919.

(b) Comprises adjustments as follows:

Increase - Reversal of provision for loss on notes of Subsidiary Companies,..............................	$58,406.31
Decrease - Excess of cost of bonds of Subsidiary Companies over their par value and unamortized discount at December 31, 1919,..............................	7,807.50
Net Increase,....................	$50,598.81

EXHIBIT "D"

FORM 36

BLANK MINING & MILLING COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1919

ASSETS

CAPITAL ASSETS:			
Ore Reserves and Mineral Rights,	$23,766,225.37		
Less Reserve for Depletion,	8,832,308.73	$16,933,916.64	
Real Estate, Mine Buildings, Machinery, etc.,	$ 9,092,608.57		
Less Reserve for Depreciation,	527,082.91	8,565,525.66	
Railroad Property and Equipment,	$ 3,216,577.76		
Less Reserve for Depreciation,	357,275.44	2,859,302.32	
Total Capital Assets,			$28,358,744.62
SINKING FUND ASSETS - CASH AND ACCRUED INTEREST (Bonds Deducted from Funded Debt, per Contra),			30,816.23
CURRENT ASSETS:			
Cash,		$ 947,781.86	
United States Treasury Certificates of Indebtedness,		1,200,000.00	
Liberty Loan Bonds and Notes - Par Value,		2,200,000.00	
Accounts and Notes Receivable,	$ 1,417,529.68		
Less Reserve for Losses,	29,612.41	1,387,917.27	
Finished Product, Work in Process, and Materials and Supplies,		1,684,364.56	
Total Current Assets,			7,420,063.71
DEFERRED CHARGES,			68,337.70
TOTAL,			$35,877,962.26

LIABILITIES

CAPITAL STOCK:		
Blank Mining & Milling Company:		
Preferred - 100,000 Shares of $100.00 each,	$10,000,000.00	
Common - 400,000 Shares without Par Value,	19,625,000.00	
Subsidiary Companies - Minority Stocks Held by the Public,	123,500.00	
Total Capital Stock,		$29,748,500.00
FUNDED DEBT:		
Subsidiary Company First Mortgage, 5% Bonds, Due 1947,	$ 3,000,000.00	
Less Bonds Held by Sinking Fund Trustees and in Treasury,	763,000.00	
Total Funded Debt,		2,237,000.00
CURRENT LIABILITIES:		
Accounts and Wages Payable,	$ 586,952.68	
Accrued Taxes,	225,314.96	
Accrued Interest,	31,328.13	
Total Current Liabilities,		843,595.77
DEFERRED CREDITS,		12,065.90
RESERVE FOR CONTINGENCIES,		723,644.02
SURPLUS:		
Profit and Loss Surplus:		
Applicable to Stock of Blank Mining & Milling Company,	$ 1,894,979.48	
Applicable to Minority Stock of Subsidiary Companies,	29,750.62	
Total, per Exhibit "B",	$ 1,924,730.10	
Surplus of Subsidiary Companies at Dates of Acquisition Applicable to Minority Stock,	32,517.14	
Excess of Par Value of Stocks of Subsidiary Companies Owned, together with Surplus at dates of Acquisition Applicable Thereto, Over Cost,	355,709.33	
Total Surplus,		2,312,956.57
TOTAL,		$35,877,962.26

EXHIBIT "A"

FORM 37

BLANK GAS & ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

BALANCE SHEETS, DECEMBER 31, 1919, AND CONSOLIDATION

-- A S S E T S --	CONSOLIDATION TOTAL	CONSOLIDATION ELIMINATIONS	BLANK GAS & ELECTRIC COMPANY	SUBSIDIARY "A"	SUBSIDIARY "B"
ROPERTY, FRANCHISES, ETC.,	$6,577,136.94		$5,219,413.31	$106,500.00	$1,251,223.63
CURITIES OF SUBSIDIARY COMPANIES,		(1)$717,258.75	$ 717,258.75		
HER SECURITIES,	$ 29,253.03		$ 29,253.03		
RRENT ASSETS:					
Cash,	$ 54,805.50		$ 35,300.98	$ 11,850.33	$ 7,654.19
Cash on Deposit to Pay Coupons,	8,694.50		8,694.50		
Notes Receivable,	9,397.29	(2)$ 54,112.16	14,261.37		49,248.08
Accounts Receivable:					
Consumers,	237,594.24		216,803.02	12,751.75	8,039.47
Other,	21,727.17		17,939.26	1,604.43	2,183.48
Accrued Interest,	315.47	(3) 4,760.51	2,242.94		2,833.04
Materials and Supplies,	120,807.40		85,954.30		34,853.10
Total Current Assets,	$ 453,341.57	$ 58,872.67	$ 381,196.37	$ 26,206.51	$ 104,811.36
ECIAL DEPOSITS,	$ 25,042.17		$ 16,342.17		$ 8,700.00
NKING FUNDS - CASH AND ACCRUED INTEREST (Bonds Acquired through Sinking Funds are deducted from Funded Debt),	$ 7,457.38		$ 6,667.88		$ 789.50
E FROM AFFILIATED COMPANIES:					
Blank Gas & Electric Company,		(4)$ 1,146.56		$ 319.42	$ 827.14
Subsidiary "A",		(4) 28,948.11	$ 26,885.61		62.50
Subsidiary "B",		(4) 7,422.60	6,333.38	1,089.22	
Total Due from Affiliated Companies,		$ 35,517.27	$ 33,218.99	$ 1,408.64	$ 889.64
FERRED CHARGES:					
Unamortized Debt Discount and Expense,	$ 430,996.14		$ 417,713.40		$ 13,282.74
Unamortized Difference between Appraisal and Book Value of Property,	28,797.37				28,797.37
Reorganization Expense,	175,415.10		175,415.10		
Prepaid Insurance, Interest, and Taxes,	1,061.57		690.05	$ 219.27	152.25
Total Deferred Charges,	$ 636,270.18		$ 593,818.55	$ 219.27	$ 42,232.36
FICIT:					
Deficit, per Exhibit "B",	$ 80,302.55	(1)$ 10,612.94	$ 62,580.38	*$ 18,368.60	$ 46,703.71
Less Excess of Book Value of Net Assets of Subsidiary Companies at Dates of Acquisition Over Cost of Their Stocks,	37,528.31	(1)* 37,528.31			
Net Deficit,	$ 42,774.24	$ 48,141.25	$ 62,580.38	*$ 18,368.60	$ 46,703.71
TOTAL,	$7,771,275.51	$859,789.94	$7,059,749.43	$115,965.82	$1,455,350.20

* Typed in red.

EXHIBIT "A"

(Continued) - 1.

[illegible]

FORM 37
BLANK GAS & ELECTRIC COMPANY, ETC.
BALANCE SHEET, DECEMBER 31, 1919, ETC.

-- LIABILITIES --	....CONSOLIDATION.... TOTAL	ELIMINATIONS	BLANK GAS & ELECTRIC COMPANY	SUBSIDIARY "A"	SUBSIDIARY "B"
PREFERRED CAPITAL STOCK (Shares $100.00 each),...	$ 500,000.00	(1)$200,000.00	$ 500,000.00		$ 200,000.00
COMMON CAPITAL STOCK (Shares $100.00 each),......	$ 755,500.00	(1)$510,400.00	$ 755,500.00	$ 75,000.00	$ 435,400.00
FUNDED DEBT (Less Bonds Held in Sinking Funds),..	$5,485,000.00	(1)$ 55,000.00	$4,850,000.00		$ 690,000.00
CURRENT LIABILITIES:					
Notes Payable,..............................	$ 653,479.94	(2)$ 54,112.16	$ 654,000.00	$ 2,650.00	$ 50,942.10
Accounts Payable,...........................	210,849.82		186,136.98	3,053.58	21,659.26
Consumers' Deposits,........................	34,611.73		21,863.21	5,480.08	7,268.44
Matured Funded Debt,........................	1,750.00		1,750.00		
Matured Interest on Funded Debt,............	18,762.27		8,062.27		10,700.00
Accrued Accounts:					
Interest on Funded Debt,...................	50,430.84	(3) 3,612.07	46,638.75		7,404.16
Interest on Notes Payable,.................	5,981.26	(3) 1,148.44	5,636.21	209.49	1,284.00
Taxes,.....................................	22,122.36		12,691.82	481.98	8,948.56
Rents,.....................................	7,890.37		7,236.97	653.40	
Total Current Liabilities,...	$1,005,878.59	$ 58,872.67	$ 944,016.21	$ 12,528.53	$ 108,206.52
DUE TO AFFILIATED COMPANIES:					
Blank Gas & Electric Company,................		(4)$ 33,218.99		$ 26,885.61	$ 6,333.38
Subsidiary "A",..............................		(4) 1,408.64	$ 319.42		1,089.22
Subsidiary "B",..............................		(4) 889.64	827.14	62.50	
Total Due to Affiliated Companies,..................		$ 35,517.27	$ 1,146.56	$ 26,948.11	$ 7,422.60
RESERVES:					
Extraordinary Maintenance,...................	$ 2,773.33		$ 629.04		$ 2,144.29
Doubtful Accounts,...........................	9,207.64		6,083.91	$ 1,341.22	1,782.51
Construction for Consumers,..................	12,915.85		2,373.71	147.96	10,394.28
Total Reserves,..............	$ 24,896.92		$ 9,086.66	$ 1,489.18	$ 14,321.08
TOTAL,.............	$7,771,275.51	$859,789.94	$7,059,749.43	$115,985.82	$1,455,350.20

NOTE: No provision has been made for depreciation of property, or for Federal Taxes for the year 1919.

EXHIBIT "A"

(Concluded) - 2.

FORM 38

BLANK GAS & ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

STATEMENTS OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1919, AND CONSOLIDATION

	........CONSOLIDATION........ TOTAL	ELIMINATIONS	BLANK GAS & ELECTRIC COMPANY	SUBSIDIARY "A"	SUBSIDIARY "B"
OPERATING REVENUE:					
Electric Department,..................	$1,390,719.88	(1)$287,486.81	$1,418,225.76	$259,980.93	
Gas Department,.......................	214,640.12	(2) 227.05			$214,867.17
Total,..............	$1,605,360.00	$287,713.86	$1,418,225.76	$259,980.93	$214,867.17
OPERATING EXPENSES AND TAXES:					
Electric Department:					
Operating Expenses:					
Production,.......................	$ 605,526.27	(1)$282,412.11	$ 698,144.31	$189,794.07	
Transmission,.....................	30,237.11		30,140.39	96.72	
Distribution,.....................	35,050.14		32,029.18	3,020.96	
Utilization,......................	10,726.23		6,821.70	3,904.53	
Commercial,.......................	20,778.23		16,913.14	3,865.09	
New Business,.....................	4,558.20		2,053.30	2,504.90	
General,..........................	87,148.81	(2) 227.05	78,392.12	8,983.74	
Total,........................	$ 794,024.99	$282,639.16	$ 864,494.14	$212,170.01	
Taxes,.............................	32,345.66		23,476.54	8,869.12	
Total Electric Department	$ 826,370.65	$282,639.16	$ 887,970.68	$221,039.13	
Gas Department:					
Operating Expenses:					
Production,.......................	$ 130,349.76				$130,349.76
Transmission and Distribution,....	12,677.96				12,677.96
Commercial,.......................	8,888.75				8,888.75
New Business,.....................	1,738.67				1,738.67
General,..........................	19,863.02	(1)$ 6,334.70			26,197.72
Total,........................	$ 173,518.16	$ 6,334.70			$179,852.86
Taxes,.............................	12,506.54				12,506.54
Total Gas Department,....	$ 186,024.70	$ 6,334.70			$192,359.40
Total Operating Expenses and Taxes,.	$1,012,395.35	$288,973.86	$ 887,970.68	$221,039.13	$192,359.40
OPERATING INCOME,......................	$ 592,964.65	*$ 1,260.00	$ 530,255.08	$ 38,941.80	$ 22,507.77
OTHER INCOME:					
Rental of Plant,......................	$ 5,600.00	(3)$ 17,580.72	$ 23,180.72		
Miscellaneous Rentals,................	5,376.83	(1) 1,260.00	1,897.48	$ 70.00	$ 4,669.35
Dividends,............................		(4) 15,000.00	15,000.00		
Interest on Notes Receivable,.........	403.19	(5) 2,954.22	1,735.46		1,621.95
Interest on Securities Owned,.........	1,166.56	(6) 2,750.00	3,916.56		
Other Interest,.......................	943.25		935.65		7.60
Total,..............	$ 13,489.83	$ 39,544.94	$ 46,665.87	$ 70.00	$ 6,298.90
GROSS INCOME - (Forward),..............	$ 606,454.48	$ 38,284.94	$ 576,920.95	$ 39,011.80	$ 28,806.67

* Typed in red.

EXHIBIT "B"

(Continued) - 1.

FORM 38
BLANK GAS & ELECTRIC COMPANY, ETC.
STATEMENTS OF INCOME AND PROFIT AND LOSS, ETC.

	........CONSOLIDATION........ TOTAL	ELIMINATIONS	BLANK GAS & ELECTRIC COMPANY	SUBSIDIARY "A"	SUBSIDIARY "B"
GROSS INCOME - (Forward),...............	$ 606,454.48	$ 36,284.94	$ 576,920.95	$ 39,011.80	$ 28,806.67
DEDUCTIONS FROM INCOME:					
Rent of Plant,.........................	$ 26,258.44	(3)$ 17,580.72	$ 26,258.44	$ 17,580.72	
Interest on Funded Debt,..............	263,708.75	(6) 2,750.00	225,650.98		$ 40,807.77
Interest on Notes Payable,............	54,012.24	(5) 2,954.22	54,981.00	83.86	1,901.60
Other Interest,.......................	3,439.22		3,178.52	126.57	134.13
Amortization of Debt Discount and Expense,............................	30,116.03		29,773.86		342.17
Amortization of Difference between Appraisal and Book Value of Property,.	2,713.04				2,713.04
Total,..............	$ 380,247.72	$ 23,284.94	$ 339,842.80	$ 17,791.15	$ 45,698.71
NET INCOME,............................	$ 226,206.76	$ 15,000.00	$ 237,078.15	$ 21,220.65	*$ 17,092.04
PROFIT AND LOSS CREDIT - DISCOUNT ON BONDS PURCHASED FOR SINKING FUND,.....	5,369.00		4,675.00		694.00
GROSS SURPLUS FOR THE YEAR,............	$ 231,575.76	$ 15,000.00	$ 241,753.15	$ 21,220.65	*$ 16,398.04
PROFIT AND LOSS CHARGES:					
Loss on Property Retired,............	$ 29,290.86		$ 29,290.86		
Dividends,...........................		(4)$ 15,000.00		$ 15,000.00	
Total,..............	$ 29,290.86	$ 15,000.00	$ 29,290.86	$ 15,000.00	
SURPLUS FOR THE YEAR,..................	$ 202,284.90		$ 212,462.29	$ 6,220.65	*$ 16,398.04
DEFICIT, JANUARY 1, 1919,..............	293,200.39		275,042.67	* 12,147.95	30,305.67
DEFICIT, DECEMBER 31, 1919,............	$ 90,915.49		$ 62,580.38	*$ 18,368.60	$ 46,703.71
LESS DEFICIT AT DATE OF ACQUISITION BY BLANK GAS & ELECTRIC COMPANY,.........	10,612.94			* 22,034.58	32,647.52
NET DEFICIT, DECEMBER 31, 1919,.........	$ 80,302.55		$ 62,580.38	$ 3,665.96	$ 14,056.19

* Typed in red.
NOTE: No provision has been made during the year for depreciation or for Federal taxes.

CHAPTER V

MISCELLANEOUS STATEMENTS

The statements other than balance sheets and income and profit and loss statements which are most often rendered in accountants' reports are schedules showing the details of items included therein, statements of cash receipts and disbursements, and statements of adjustments necessary to bring the books into conformity with the principal statements rendered. Such miscellaneous statements are illustrated to some extent in the forms of this chapter.

SCHEDULES

Schedules to balance sheets and statements of income and profit and loss seem to require but little illustration, as they are either very simple or they closely follow the arrangement of the exhibits which they support. The forms selected for exemplification are as follows:

Form 39 is a schedule of notes receivable, showing the security therefor.

Form 40 is a schedule of investment securities, showing market values.

Form 41 is a schedule of property, with corresponding depreciation reserves, showing the net book value of each item.

Form 42 shows the cost of sales of a paper mill, with certain statistical data.

Form 43 is a comparative statement of department operations of a hotel. In this case the profit or loss from each department is carried to the exhibit separately.

Form 44 is another statement of department operations, supporting an item "Department Profit" in the exhibit, with certain ratios and explanations of the bases of apportionment of certain expenses.

STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS

Forms 45, 46, and 47 are designed to illustrate the usual form of statements of cash receipts and disbursements under three different conditions, which are self-explanatory.

The question is often raised as to the treatment of minor refunds of expenses, etc., whether they should be treated as receipts or as deductions from disbursements. In nearly all cases where a statement of cash receipts and disbursements is called for, the accounts are kept on a cash basis and the statement of receipts and disbursements, or most of it, is in fact a statement of income and expenses. When such is the case it appears to be logical to deduct most refunds from the items of receipts and disbursements to which they relate, ignoring the fact that neither the "total receipts" nor the "total disbursements" is literally correct.

Form 48 has been prepared as a suggestion of a form of statement of receipts and disbursements to be used when it is desired to exhibit the results of operations and when there are receipts and disbursements other than those relating to in-

come. It will be noted that in this form the excess of receipts over disbursements for the period is arrived at and the balance at the beginning of the period is added. This method will often be found convenient, especially when the receipts cover more than one sheet and it would be necessary to forward two amounts if the balance at the beginning were stated first.

STATEMENTS OF ADJUSTMENTS

When the adjustments made by the public accountant in the preparation of the balance sheet, etc., other than minor re-classifications, have not been made on the books, it is desirable that they be brought to the attention of the client in some way. The matter may be covered in the comments, but if not, the adjustments are usually submitted as an exhibit of the report, in the form of journal entries which should be made on the books. Such a statement is illustrated in Form 49.

Another method sometimes employed is a reconcilement of an auditor's and his client's balance sheets, by means of a columnar statement, with the several items or groups as column headings, starting with the balance as shown by the company's balance sheet and applying the items treated differently, using black for additions and red for deductions, and arriving at the balances as shown by the auditor's balance sheet. This form is rather involved and its general use is, therefore, not recommended.

STATEMENTS OF REALIZATION AND LIQUIDATION

So much difficulty is experienced by most accountants in preparing a lucid statement of realization and liquidation, and there is such a dearth of practical solutions of the question in standard textbooks, that Form 50 has been prepared with a view to suggesting what may be done under the assumed conditions to furnish a statement which is intelligible to the layman. It appears that adaptation of this form to the conditions of any given case, with the possible addition of supporting statements, should be satisfactory.

FORM 39

THE BLANK BREWING COMPANY

NOTES RECEIVABLE, DECEMBER 31, 1919

DATE	MAKER	MATURITY	INTEREST RATE	AMOUNT	SECURITY
Apr. 15, 1901	James Herzog,.....................	Apr. 15, 1911	5%	$ 9,258.79	Real Estate Mortgage
Apr. 25, 1911	J. W. Geyer,......................	Demand	5%	10,000.00	Chattel Mortgage
June 28, 1911	F. A. Madigan,....................	Sep. 28, 1912	6%	200.00	20 Shares Blank Savings Bank Stock
July 12, 1912	Frederick McCarthy,...............	Demand	6%	1,000.00	Chattel Mortgage
Aug. 20, 1912	H. B. McGinness,..................	"	5-1/2%	5,000.00	Real Estate Mortgage
Apr. 25, 1917	Kearney & Davis,..................	"	5%	500.00	Not secured
Aug. 27 1917	T. L. Miller,.....................	Feb. 27, 1918	6%	2,300.00	Paid-up Life Insurance Policy for $2,500.00
Sep. 5, 1917	H. B. O'Connor,...................	Nov. 3, 1917	5%	10,800.00	Endorsement of L. J. Daly, R. Daly, and J. C. O'Donnell
Nov. 6, 1917	J. C. Hewitt (25 notes due monthly)	Apr.6,1918, to Apr.6,1920	6%	7,300.00	Real Estate Mortgage
Feb. 14, 1918	A. Wolf (11 notes due quarterly),..	May 14,1919,to Nov.14,1921	6%	5,500.00	"
Mar. 5, 1918	S. E. Mergner,....................	Feb. 5, 1921	5%	5,000.00	"
Nov. 11, 1918	J. W. Geyer,......................	Demand	6%	1,000.00	Not secured
Dec. 6, 1918	M. C. Meinking (53 notes due monthly),..........................	Nov.6,1919,to Apr.6,1924	6%	5,350.00	Chattel Mortgage
Mar. 6, 1919	O'Donnell & O'Hanlon,.............	Mar. 6, 1921	5%	11,000.00	Endorsement of Berger & Blumenthal
Apr. 3, 1919	J. C. Bender (Balance of note for $200.00),.......................	Demand	6%	68.50	Not secured - Employee
Aug. 26, 1919	L. M. Colton,.....................	Feb. 26, 1920	6%	537.45	Savings bank book - Balance $650.00
Oct. 15, 1919	L. Hellwig,.......................	Jan. 15, 1920	6%	2,500.00	Endorsement of L. M. Jorss
Dec. 15, 1919	Chas. and Elizabeth Nesline,.......	Dec. 15, 1922	5%	5,500.00	Real Estate Mortgage
	TOTAL,.........................			$82,814.74	

EXHIBIT "A"
SCHEDULE #1

FORM 40

THE BLANK COMPANY

INVESTMENT SECURITIES, DECEMBER 31, 1919

DESCRIPTION	PAR VALUE	BOOK VALUE	ESTIMATED MARKET VALUE
BONDS:			
American Telephone & Telegraph Company 6s, 1922,	$ 5,000.00	$ 4,962.50	$ 4,950.00
Baltimore & Ohio Railroad Convertible 4-1/2s, 1933,	15,000.00	12,456.25	8,550.00
Lehigh Valley Railroad 6s, 1928	5,000.00	5,077.50	5,000.00
Missouri Pacific Railroad General 4s, 1975,	10,000.00	6,418.75	5,525.00
Pennsylvania Railroad General 5s, 1968,	10,000.00	9,625.00	8,962.50
Public Service Corporation of New Jersey General 5s, 1959,	5,000.00	4,718.75	2,975.00
Southern Railway Development and General 4s, 1956,	15,000.00	11,217.50	9,150.00
United Kingdom of Great Britain and Ireland 5-1/2s, 1921,	5,000.00	4,925.00	4,775.00
United States Liberty Loan Bonds:			
First Converted 4-1/4s,	10,000.00	10,000.00	9,350.00
Second Converted 4-1/4s,	10,000.00	10,000.00	9,220.00
Third 4-1/4s,	20,000.00	20,000.00	18,956.00
Fourth 4-1/4s,	20,000.00	20,000.00	18,440.00
Victory 4-3/4% Notes,	25,000.00	25,000.00	24,735.00
Total Bonds,		$144,401.25	$130,588.50
STOCKS:			
John Doe & Company, Inc., 29 Shares,	$ 2,900.00	$ 2,900.00	*$ 3,500.00
New York Central Railroad Company, 100 Shares,	10,000.00	7,450.00	6,950.00
Pennsylvania Railroad Company, 100 Shares,	5,000.00	5,347.50	4,025.00
United States Steel Corporation Preferred, 50 Shares,	5,000.00	5,500.00	5,687.50
Total Stocks,		$ 21,197.50	$ 20,162.50
TOTAL,		$165,598.75	$150,751.00

* Information furnished by the President of the Blank Company.

EXHIBIT "A"
SCHEDULE #1

FORM 41

THE BLANK COMPANY

PROPERTY, LESS RESERVES FOR DEPRECIATION, DECEMBER 31, 1919

	GROSS BOOK VALUE	DEPRECIATION RESERVES	NET BOOK VALUE
PROVIDENCE:			
Land, ...	$ 150,000.00		$150,000.00
Buildings, ...	327,261.00	$ 70,257.35	257,003.65
Machinery, ...	146,074.78	97,373.35	48,701.43
Power Plant Equipment, ...	43,032.22	18,178.27	24,853.95
Factory Furniture, Fixtures, and Appliances, ...	48,673.15	23,809.20	24,863.95
Semi-durable Tools - Inventory, ...	22,935.69		22,935.69
Office Furniture and Appliances, ...	29,200.22	15,103.42	14,096.80
Automobile Trucks - Inventory, ...	6,350.00		6,350.00
Horses, Wagons, and Harness - Inventory, ...	3,215.00		3,215.00
Total, ...	$ 776,742.06	$224,721.59	$552,020.47
HARTFORD:			
Land, ...	$ 28,250.00		$ 28,250.00
Buildings, ...	59,215.26	$ 4,726.41	54,488.85
Machinery, ...	144,773.63	39,918.87	104,854.76
Factory Furniture, Fixtures, and Appliances, ...	14,476.16	4,862.42	9,613.74
Semi-durable Tools - Inventory, ...	8,182.99		8,182.99
Office Furniture and Appliances, ...	670.54	172.20	498.34
Total, ...	$ 255,568.58	$ 49,679.90	$205,888.68
TOTAL, ...	$1,032,310.64	$274,401.49	$757,909.15

EXHIBIT "A"
SCHEDULE #1

[illegible]

FORM 42

BLANK PAPER MANUFACTURING COMPANY

COST OF SALES, PAPER MILL,
FOR THE YEAR ENDED DECEMBER 31, 1919

	TONS	AMOUNT
COST OF PRODUCTION:		
Materials:		
Sulphite, Own Make,	1,285.851	$ 94,863.62
Sulphite, Purchased,	55.583	3,610.79
Ground Wood, Own Make,	1,637.650	48,583.18
Ground Wood, Purchased,	1,231.537	38,792.10
Paper Stock,	170.975	5,572.06
Wrappers,	20.995	889.82
Alum,	54.900	2,122.58
Color,		883.95
Size,	3.446	187.02
Total Materials,	4,460.937	$195,505.12
Conversion:		
Superintendence,		$ 4,735.63
Labor,		21,346.12
Felts and Jackets,		9,908.33
Canvas,		2,056.44
Wires,		3,409.34
Belting and Hose,		2,165.75
Lubricants,		612.09
Finishing - Labor and Material,		1,854.42
Repairs - Labor and Material,		18,893.34
Steam Production:		
Coal,	3,509.939	20,493.75
Labor and Other Expenses,		6,708.83
Electric Light and Power Purchased,		1,590.07
Depreciation,		7,532.34
General Mill Expenses,		3,609.15
Total Conversion,		$104,915.60
Total Cost of Production,	3,592.871	$300,420.72
LESS TRANSFERS:		
To Sheet Converting Department,	454.211	$ 35,805.18
To Roll Converting Department,	910.892	86,686.47
To Folded Converting Department,	652.275	61,426.31
Total,	2,017.378	$183,917.96
REMAINDER - COST OF PRODUCTION, PAPER MILL,	1,575.493	$116,502.76
LESS INCREASE IN INVENTORY,	9.298	1,344.53
COST OF SALES,	1,566.195	$115,158.23

S T A T I S T I C S		Tons
Stock Used,		4,460.937
Paper Produced,		3,592.871
Loss on Stock in Conversion,		868.066
Ratio to Stock Used,	19.46%	
Coal Used Per Ton of Paper Produced		.977

EXHIBIT "B"
SCHEDULE #1

FORM 43

THE BLANK HOTEL

DEPARTMENT OPERATIONS FOR THE YEAR ENDING MAY 31, 1920, AND COMPARISON WITH THE PRECEDING YEAR

	YEAR ENDED MAY 31, 1920	INCREASE *DECREASE
ROOMS		
REVENUE,	$164,998.43	$30,358.82
EXPENSES:		
Wages - Housekeeper, Maids, Cleaners, etc.,	$ 11,239.31	$ 954.28
Linen,	6,147.32	2,924.15
Furnishings,	6,389.03	2,645.24
Laundry,	3,427.09	1,218.10
Board of Employees,	8,540.25	817.42
Miscellaneous,	3,612.91	1,044.79
Total,	$ 39,355.91	$ 9,603.98
NET PROFIT,	$125,642.52	$20,754.84
RESTAURANT		
SALES,	$147,956.33	$46,034.83
COST OF FOOD SOLD,	95,685.28	12,569.82
GROSS PROFIT,	$ 52,271.05	$33,465.01
Ratio to Cost,	54.63%	32.01%
EXPENSES:		
Wages:		
Chef, Cooks, Bakers, Butchers, etc.	$ 12,646.11	$ 2,570.17
Waiters, Checkers, Pantrymen, etc.,	16,085.23	3,146.42
Kitchen Fuel,	2,819.58	27.60
Laundry,	2,281.99	437.31
China, Glass, and Silver,	1,741.37	377.57
Linen,	1,751.63	1,022.65
Printing,	759.30	* 47.53
Flowers,	624.19	36.20
Music,	2,047.10	312.74
Board of Employees,	12,658.30	1,312.11
Miscellaneous,	3,260.79	* 195.82
Total,	$ 56,675.59	$ 8,999.42
NET LOSS,	$ 4,404.54	*$24,465.59
CIGAR STAND		
SALES,	$ 6,089.75	$ 627.54
COST OF GOODS SOLD,	3,917.85	* 76.05
GROSS PROFIT,	$ 2,171.90	$ 703.59
Ratio to Cost,	55.43%	18.67%
EXPENSES - WAGES, BOARD OF EMPLOYEES, AND LICENSE,	649.00	86.12
NET PROFIT,	$ 1,522.90	$ 617.47

* Typed in red.

EXHIBIT "B"
SCHEDULE #1

(Continued) - 1.

FORM 43
THE BLANK HOTEL
DEPARTMENT OPERATIONS FOR THE YEAR ENDED MAY 31, 1920, ETC.

	YEAR ENDED MAY 31,1920	INCREASE *DECREASE
BAR		
SALES,	$ 75,533.71	$48,937.81
COST OF GOODS SOLD,	21,295.33	11,257.16
GROSS PROFIT,	$ 54,238.38	$37,680.65
Ratio to Cost,	254.70%	89.75%
EXPENSES:		
Wages,	$ 5,325.41	$ 762.50
License,	1,500.00	
Board of Employees,	931.55	83.67
Glassware, etc.,	560.24	* 92.14
Laundry,	116.59	19.58
Miscellaneous,	327.64	47.62
Total,	$ 8,761.43	$ 821.23
NET PROFIT,	$ 45,476.95	$36,859.42
NEWS STAND		
SALES,	$ 1,719.55	*$ 267.07
COST OF GOODS SOLD,	1,608.70	82.93
GROSS PROFIT,	$ 110.85	*$ 350.00
Ratio to Cost,	6.88%	* 23.31%
EXPENSES - WAGES AND BOARD OF EMPLOYEES	327.16	37.75
NET LOSS,	$ 216.31	$ 387.75
TELEPHONE		
REVENUE,	$ 6,435.01	$ 618.72
EXPENSES:		
Tolls and Service,	$ 5,940.76	$ 467.19
Less Amount Charged to General Expenses,	1,895.65	41.87
Remainder,	$ 4,045.11	$ 425.32
Wages,	1,746.55	219.22
Board of Employees,	574.10	59.73
Total,	$ 6,365.76	$ 704.27
NET PROFIT,	$ 69.25	*$ 85.55

* Typed in red.

EXHIBIT "B"
SCHEDULE #1 (Concluded) 2

FORM 44

THE BLANK COMPANY

DEPARTMENT OPERATIONS FOR THE YEAR ENDED MAY 31, 1920

		TOTAL	DEPARTMENTS "A"	"B"	"C"	"D"
NET SALES,		$3,691,253.28	$2,229,402.22	$1,127,616.85	$230,830.59	$103,403.62
Ratio to Total,		100.00%	60.39%	30.55%	6.25%	2.81%
COST OF GOODS SOLD:						
Materials,		$2,462,793.12	$1,673,839.42	$ 562,769.86	$167,535.01	$ 58,648.83
Containers and Labels,		74,442.91	50,763.72	15,532.54	6,029.02	2,117.63
Freight Inward,		25,283.42	17,275.32	5,677.64	1,725.29	605.17
Drayage Inward,	*(a)	4,235.19	2,901.12	952.92	275.28	105.87
Receiving Expenses,	(a)	4,628.77	2,206.50	1,548.20	440.20	433.87
Labor,		165,465.78	97,232.45	54,457.03	7,579.33	6,196.97
Repairs to Mixing Machinery,		15,355.89	11,482.83	3,286.67	204.53	381.86
Depreciation of Mixing Machinery,		3,464.53	2,720.00	612.93	56.18	75.42
Miscellaneous Supplies and Expenses,		2,300.54	1,548.32	623.67	99.25	29.30
Total,		$2,757,970.15	$1,859,969.68	$ 645,461.46	$183,944.09	$ 68,594.92
GROSS PROFIT,		$ 933,283.13	$ 369,432.54	$ 482,155.39	$ 46,886.50	$ 34,808.70
Ratio to Net Sales,		25.28%	16.57%	42.75%	20.31%	33.66%
Ratio to Cost of Goods Sold,		33.84%	19.86%	74.70%	25.48%	50.74%
SELLING AND DELIVERY EXPENSES:						
Salesmen's Salaries and Commissions,		$ 147,560.70	$ 89,601.20	$ 44,192.85	$ 9,406.50	$ 4,360.15
Traveling Expenses,		65,713.64	39,786.79	21,521.62	3,264.58	1,140.65
Advertising,	(b)	89,176.55	30,029.45	47,404.01	7,324.94	4,418.15
Shipping Department Expenses,	(c)	7,683.92	4,641.08	2,343.60	476.40	222.84
Drayage Outward,	*(c)	4,235.19	2,558.07	1,291.74	262.59	122.79
Total,		$ 314,370.00	$ 166,616.59	$ 116,753.82	$ 20,735.01	$ 10,264.58
DEPARTMENT PROFIT,		$ 618,913.13	$ 202,815.95	$ 365,401.57	$ 26,151.49	$ 24,544.12
Ratio to Total,		100.00%	32.77%	59.04%	4.22%	3.97%
Ratio to Net Sales,		18.76%	9.10%	32.40%	11.32%	23.73%
Ratio to Total Cost and Selling and Delivery Expenses,		20.14%	10.00%	47.93%	12.77%	31.12%

* Total expense arbitrarily divided equally between inward and outward.
(a) Apportionment to departments based upon the ratio of the purchases of each to the total.
(b) Apportionment to departments as estimated by the company.
(c) Apportionment to departments based upon the ratio of the net sales of each to the total.

EXHIBIT "B"
SCHEDULE #1

FORM 45

THE BLANK COMPANY

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE MONTH OF MAY, 1920

BALANCE ON DEPOSIT, MAY 1, 1920, ...		$ 25,476.67
RECEIPTS:		
Accounts Receivable, ...	$128,133.56	
Cash Sales, ...	14,019.95	
Rentals, ...	650.00	
Sale of Scrap, ...	121.28	
Interest on Bank Balances, ...	267.42	
Collections for Telephone Calls	37.50	
Railroad Claims, ...	269.04	
Refund of Overpayment of Expenses, ...	76.09	
Total Receipts, ...		143,574.84
Total, ...		$169,051.51
DISBURSEMENTS:		
Purchase Ledger, ...	$ 76,224.13	
Wages, ...	39,425.96	
Rent, ...	2,500.00	
Taxes, ...	1,916.47	
Water, ...	312.92	
Contribution, ...	500.00	
Sundry Expenses, ...	2,319.22	
Total Disbursements,		123,198.70
BALANCE ON DEPOSIT, MAY 31, 1920:		
National Bank of Commerce, ...	$ 39,112.41	
Bankers Trust Company, ...	6,740.40	$ 45,852.81

FORM 46

THE BLANK ASSOCIATION

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE MONTH OF MAY, 1920, AND THE SIX MONTHS ENDED MAY 31, 1920

	MONTH OF MAY, 1920	SIX MONTHS ENDED MAY 31, 1920
BALANCE AT BEGINNING OF PERIOD,.........	$18,971.82	$ 36,159.96
RECEIPTS:		
General Subscriptions,................	$37,484.79	$197,360.89
Membership Fees,.....................	1,980.00	2,620.00
Loans on Notes Payable,...............		30,000.00
Interest on Liberty Loan Bonds and Bank Balances,.....................	348.57	1,097.48
Employees - On Subscriptions for Liberty Loan Bonds,................	14.00	164.00
Total Receipts,.........	$39,827.36	$231,242.37
Total,............	$58,799.18	$267,402.33
DISBURSEMENTS:		
Extension Department,.................	$ 8,927.72	$ 50,338.58
Campaign Department,..................	2,576.50	19,663.29
Publicity Committee,..................	4,281.73	25,066.58
Finance Committee,....................	5,029.28	21,219.17
Foreign Organizations,................		3,756.89
Advances for Traveling Expenses (Less Expenditures Transferred to Other Accounts),.........................	550.00	1,100.00
Conventions,..........................		19,635.08
Administrative,.......................	2,171.03	13,525.53
Central Office:		
Salaries,..........................	3,999.25	20,783.68
Telephone and Telegraph,...........	5,459.59	14,865.42
Office Supplies,...................	151.07	1,483.20
Printing and Stationery,...........	94.18	2,351.61
Postage,...........................	277.88	1,696.59
Office Equipment,..................	29.75	1,764.31
Miscellaneous,.....................	24.17	213.20
Advances to Chicago Bureau,...........	* 538.16	1,000.00
Chicago Bureau Expenses,..............	6,028.80	28,543.80
Notes Paid,...........................	5,000.00	25,000.00
Interest on Notes,....................	854.17	2,435.47
Total,....................	$44,916.96	$254,442.40
Less Charges to Expense Accounts as above for postage in excess of actual disbursements therefor,............	* 30.87	891.42
Total Disbursements	$44,947.83	$253,550.98
BALANCE AT END OF PERIOD,.............	$13,851.35	$ 13,851.35

FORM 47

THE BLANK PROPAGANDA SOCIETY

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FROM SEPTEMBER 11, 1919, TO APRIL 30, 1920

	*TOTAL	NEW YORK OFFICE	WASHINGTON OFFICE
RECEIPTS:			
Contributions:			
National Headquarters,...............	$32,184.57	$32,184.57	
Washington,.........................	25,091.90	25,091.90	
Special Campaign,...................	15,100.00	15,100.00	
Total,.........................	$72,376.47	$72,376.47	
Advances by New York Office,..........			$23,592.67
Interest on Deposits,.................	12.15		12.15
Miscellaneous,........................	50.55	50.55	
Total Receipts,...........	$72,439.17	$72,427.02	$23,604.82
DISBURSEMENTS:			
Field Work:			
Advances,...........................	$ 520.00	$ 160.00	$ 360.00
Personal Expenses,..................	2,294.10	1,191.20	1,102.90
Meeting Expenses,...................	14,157.96	14,015.16	142.80
Campaign Expenses,..................	1,220.13	256.20	963.93
Salaries,...........................	2,458.33	1,633.33	825.00
Display Advertising,................	455.00	455.00	
Total,.........................	$21,105.52	$17,710.89	$ 3,394.63
Literature,...........................	15,814.06	8,235.54	7,578.52
Office Rent and Supplies,.............	1,573.17	641.18	931.99
Office Salaries,......................	5,176.07	3,057.36	2,118.71
Addressing Clerks' Salaries,..........	2,054.44		2,054.44
Office Equipment,.....................	941.75	425.00	516.75
General Publicity,....................	4,798.50	4,788.50	10.00
Advances to Washington Office,.........		23,592.67	
Miscellaneous,........................	2,518.90	1,833.80	685.10
Total Disbursements,......	$53,982.41	$60,284.94	$17,290.14
BALANCE, APRIL 30, 1920:			
On Deposit:			
Guaranty Trust Company, New York,....	$12,142.08	$12,142.08	
Riggs National Bank, Washington,.....	6,139.66		$ 6,139.66
On Hand,..............................	175.02		175.02
TOTAL,..............	$18,456.76	$12,142.08	$ 6,314.68

* Not including inter-office transfers.
NOTE: The Washington office was opened November 20, 1919.

FORM 48

THE BLANK SOCIETY

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1919

RECEIPTS OF INCOME:		
Dues,	$17,100.00	
Special Contribution for Payment of Expenses,	1,000.00	
Interest on Securities,	890.50	
Interest on Bank Balances,	67.58	
Total,		$19,058.08
DISBURSEMENTS OF EXPENSES:		
Salaries,	$ 8,525.16	
Printing, Stationery, and Postage,	3,412.94	
Office Rent, Telephone, etc.,	1,967.52	
Traveling Expenses of Secretary,	312.90	
Office Equipment,	167.25	
Annual Dinner - Net Cost,	1,267.14	
Interest on Loans,	212.50	
Total,		15,865.41
NET INCOME,		$ 3,192.67
OTHER RECEIPTS:		
Membership Fees,	$ 600.00	
Loan,	5,000.00	
Collections from Employees on Liberty Loan Bond Subscriptions,	350.00	
Total,		5,950.00
Total,		$ 9,142.67
OTHER DISBURSEMENTS:		
Purchases of Securities,	$ 4,237.50	
Partial Payment of Loan,	3,000.00	
Total,		7,237.50
EXCESS OF RECEIPTS OVER DISBURSEMENTS FOR THE YEAR,		$ 1,905.17
BALANCE, JANUARY 1, 1919,		816.90
BALANCE, DECEMBER 31, 1919 - ON DEPOSIT WITH THE EQUITABLE TRUST COMPANY OF NEW YORK,		$ 2,722.07

FORM 49

THE BLANK COMPANY

JOURNAL ENTRIES NECESSARY TO ADJUST THE BOOKS AS OF DECEMBER 31, 1919, TO CONFORM TO EXHIBIT "A"

LAND,	$ 375.45	
TO BUILDINGS,		$ 375.45

For transfer of charge to the latter account, August 31, 1919, Voucher 8367.

****

MANUFACTURING EXPENSE,	30,141.30	
TO MACHINERY,		30,141.30

For reversal of charges by the Cost Department, on factory orders, to the latter account, covering new machines installed during the year 1919, as these machines had already been charged to the Machinery account direct from the purchase invoices. (No adjustment of finished goods inventory is considered necessary.)

****

BUILDINGS,	3,995.46	
TO RESERVE FOR DEPRECIATION OF BUILDINGS,		3,995.46

For transfer from the former account of credits on account of depreciation.

****

FORM 49
THE BLANK COMPANY
JOURNAL ENTRIES NECESSARY TO ADJUST THE BOOKS, ETC.

DEPRECIATION OF AUTOMOBILE TRUCKS, ...	$ 1,250.00	
TO AUTOMOBILE TRUCKS, ...		$ 1,250.00

For reversal of the entry whereby the book value of an automobile truck was appreciated.

****

AMORTIZATION OF PATENTS, ...	514.48	
TO RESERVE FOR AMORTIZATION OF PATENTS, ...		514.48

For correction of amortization for the year 1919.

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FORM 50

THE BLANK MERCANTILE COMPANY

STATEMENT OF ASSETS AND LIABILITIES AT JUNE 21, 1919;
REALIZATION AND LIQUIDATION THEREOF TO DECEMBER 31, 1919;
AND ASSETS NOT REALIZED AND LIABILITIES NOT LIQUIDATED AT DECEMBER 31, 1919

-- A S S E T S --	BALANCE, JUNE 21, 1919	NET INCREASE THROUGH OPERATIONS(1)	PROFIT OR *LOSS IN REALIZATION	AMOUNT REALIZED	AMOUNT TAKEN OVER BY SUCCESSOR	BALANCE, DECEMBER 31, 1919
CASH, ...	$ 42,273.82			$ 38,780.91		$ 3,512.91
NOTES RECEIVABLE, ...	369,081.47		*$ 8,750.19	290,626.53	$ 71,704.75	
ACCOUNTS RECEIVABLE:						
Customers, ...	312,701.78	$ 5,212.90	* 3,562.43	246,817.53	67,534.72	
A. B. & Company, ...	83,246.94			83,246.94		
The C. D. Company, ...	14,297.06					14,297.06
ACCRUED INTEREST RECEIVABLE, ...	1,659.28	212.95		1,659.28	212.95	
MERCHANDISE, ...	173,398.20		58,317.04	176,200.98	53,514.26	
INVESTMENT SECURITIES:						
G. H. Company First Mortgage Bonds, ...	45,078.62		891.48	45,970.10		
I. J. & Company Preferred Stock, ...	12,330.89		169.11	12,500.00		
FURNITURE AND FIXTURES, ...	2,762.50				2,762.50	
THE SUCCESSOR COMPANY, ...		113,845.85				113,845.85
TOTAL, ...	$1,056,830.54	$119,271.70	$47,065.01	$895,782.25	$195,729.18	$131,855.82

-- L I A B I L I T I E S --	BALANCE, JUNE 21, 1919	NET INCREASE THROUGH OPERATIONS(1)	DECREASE THROUGH REALIZATION AND LIQUIDATION	AMOUNT LIQUIDATED	AMOUNT ASSUMED BY SUCCESSOR	BALANCE, DECEMBER 31, 1919
NOTES PAYABLE, ...	$ 137,649.27			$137,649.27		
ACCEPTANCES PAYABLE, ...	87,102.74			56,312.68	$30,790.06	
ACCOUNTS PAYABLE:						
Trade Creditors, ...	106,862.61			55,769.34	51,093.27	
K. L. & Company, Inc., ...	18,624.42			18,624.42		
The M. & N. Company, ...	4,376.70			3,167.04		$ 1,209.66
ACCRUED TAXES, ...	17,909.21	$5,216.95		15,412.72		7,713.44
ACCRUED SALARIES, ETC., ...	3,216.47			3,216.47		
CAPITAL STOCK, ...	500,000.00		$400,000.00			100,000.00
SURPLUS, ...	181,089.12		(2) 158,356.40			22,732.72
TOTAL, ...	$1,056,830.54	$5,218.95	$558,358.40	$290,151.94	$81,883.33	$131,655.82

(1) Not including temporary increases subsequently offset by the movement of cash.

(2) Decrease in Surplus:

Distributions to Stockholders, ...	$175,000.00
Expenses, Less Sundry Credits, ...	30,421.41
Total, ...	$205,421.41
Less Net Profit from Realization of Assets, as above, ...	47,065.01
Net Decrease, ...	$158,356.40

* Typed in red.

CHAPTER VI

COMMENTS

For the great majority of accountants the comments undoubtedly constitute the most difficult part of an audit report. Even to those possessing facility of expression the preparation of the comments is often very perplexing. This part of the report requires the exercise of judgment and discrimination to a degree not usually demanded in the preparation of the statements, practically the sole requirement for which is accounting technique.

It may be stated as a postulate that comments should be limited to essentials. A multiplicity of perfunctory comments may obscure points it is especially desired to bring to the attention of the client. As importance is relative rather than absolute, the determination of what is important or essential demands the exercise of good judgment. Among things to be considered are the size of the business; the familiarity of the recipients of the report with the practices and methods of professional accountants; any peculiar circumstances regarding the purpose or object of the audit; and what may be known of the characteristics of the person or persons primarily interested in the report.

It is perhaps superfluous to say that the report should usually be more detailed, as to both comments and statements, for a small business than for a large one. This is due not only to the fact that the audit of a smaller business is likely to be more detailed, but also that the executive of a

large business, or anyone else who may have occasion to read the report on the company, is usually interested only in the larger phases of its affairs.

When a report is addressed to a person who is known to be unfamiliar with the methods of professional auditors it is usually desirable, regardless of the size of the business, to comment in some detail upon the extent and method of verification of the several accounts. Where a client is thoroughly familiar with such matters, as is usually the case in a large business, the assertion that the accounts have been audited is sufficient and it is unnecessary to go into detail regarding the particular items. However, it will be found that many clients prefer to have some mention made, either in the comments or in the certificate, of the verification of cash and other assets readily convertible into cash. This is easily understood, as verification of such items involves not only the integrity of the accounts but the honesty of officers and employees. In other words, those charged with the custody of liquid assets are very likely to want the audit report to give them a clean bill of health.

The character of the comments, no less than the statements, should be adapted to any peculiar features of the engagement. For example, if it be known that a report is to be submitted to prospective lenders, the comments should deal particularly with current assets and liabilities, and should not include observations on the accounting system, information regarding errors disclosed but rectified, etc. In a report designed for a

prospective purchaser of the business it is often appropriate to include comments on its history, organization, and personnel.

When certain definite information is sought it is usually desirable to summarize in the comments the information shown by exhibits and schedules, in order to bring out the salient facts. The accountant can usually render considerable assistance to his client by stating his conclusions instead of merely furnishing the client with the necessary data in the form of statements for the formulation of his own conclusions. This, however, does not mean that statement matter should merely be repeated.

Regardless of what might appear to be the general requirements in an engagement, in the preparation of both statements and comments recognition should be given to any peculiarities or even idiosyncrasies of the individuals to whom the report is to be rendered. For example, it may be known that some person attaches a great deal of importance to the cash receipts and disbursements of a business, notwithstanding that the accounts are kept on an accrual basis. In that case it is, of course, in order to render a summary of receipts and disbursements, even though the classification of disbursements may be practically meaningless. It may also be known that a certain individual is especially interested in some department of the business - that is, in fact, his hobby. In such a case a paragraph relating to the operation of that department may well be inserted in the comments.

In most reports designed to furnish information to the client himself, it is generally thought appropriate to include some comment on the adequacy of the accounting system and the efficiency of the office personnel. Of course, in an ordinary audit opportunity is not usually afforded for conclusive investigation along these lines, but such impressions as may be gathered are likely to be interesting to the client, especially if it is the first engagement.

In what order should comments be arranged? Since most comments relate to the items of the statements, usually explaining their composition, changes in them during the audit period, or the extent or method of verification, it seems logical to arrange the comments in the order of the appearance of the items in the statements, Exhibit "A" taking precedence over Exhibit "B," etc. Remarks of a general nature may then conclude the comments, unless they are of an introductory nature, as a description of the organization of the business, in which case they should be placed at the beginning of the comments.

At this point it seems appropriate to state that the accountant may not safely ignore the importance of good language and style. An excellent dissertation on this subject is contained in an article by Mr. Horatio N. Drury appearing in "The Pace Student" for October, 1919, from which the following is quoted:

> "Paragraphs should be neither so long as to make it difficult to grasp the central idea, nor so short as to give the impression of a fragmentary de-

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

velopment of the thought. In many paragraphs, short topic sentences, sentences of summary, and sentences of transition can be used to advantage. Long, round-about sentences should be avoided. Short, simply framed sentences are the easiest to understand, though as to the length of the sentence, the principle of variety should not be lost sight of; and, of course, there should never be any question about the grammatical correctness of a sentence.

"As for words and phrases, the principle of simplicity obtains here as well. Heavy, polysyllabic words and cumbersome turns of phrase should give way to simple idioms and Anglo-Saxon words wherever possible. Colloquialisms and slang, it is needless to say, are always out of place in a report. Simplicity of style never requires the use of an expression that is not in reputable standing. Then, too, a midway course should be steered between prolixity of style, on the one hand, and undue brevity, on the other. The facts should be made clear, but in as few words as possible.

"As respects the tone of a report, a few cautions may be helpful. Sarcasm and flippancy lower the tone of a report and should always be avoided. Dignity and impersonality of tone are to be striven for; and these qualities can be secured only when the accountant expresses himself in his report succinctly and directly, and in accordance with the canons of good taste. It is facts, not the embellishments of the facts, that clients look for and must have if they are to mend their technical and managerial mistakes of omission and commission."

The desirability of impersonality of expression may well be emphasized. The effect of many reports has been spoiled by the reiteration of the personal pronoun.

The use of captions is an important feature of the preparation of text matter in a report. Some system should be adopted whereby the reader may be enabled to differentiate between principal and subsidiary captions. It makes little differ-

ence how this is done, but for the present purpose the following will be adopted: principal captions - capitals, centered, double underscore (hereinafter termed "center captions"); subsidiary to center captions - capitals, flush with left margin, without underscore (hereinafter termed "side captions"); subsidiary to side captions - capitals and small letters, indented two spaces from left margin, single underscore (hereinafter termed "sub-side captions"). To illustrate, assume that it is desired to comment upon this group of balance sheet items:

INVESTMENTS, ...		$ 50,000.00
CURRENT ASSETS:		
Cash:		
General Funds, ...	$ 70,000.00	
Coupon and Dividend Accounts, ...	30,000.00	
Accounts Receivable:		
Customers, ...	150,000.00	
Officers and Employees, ..	50,000.00	
Total Current Assets, ...		300,000.00

The following captions may be employed:

INVESTMENTS - $50,000.00

CURRENT ASSETS

CASH

General Funds - $70,000.00

Coupon and Dividend Accounts - $30,000.00

ACCOUNTS RECEIVABLE

Customers - $150,000.00

Officers and Employees - $50,000.00

While it may be necessary to employ as many captions as the above, it is desirable to simplify the arrangement as much as practicable. In certain cases, for the sake of simplicity, the caption Current Assets may be omitted altogether; or if some general comment on all of the constituent items is made, or the comment on each item is limited to one paragraph, that caption may be retained and the subsidiary captions omitted. It is seldom necessary to employ the captions subsidiary to Cash, but it may be appropriate to use them if there are extensive comments which do not apply to both items of Cash. The same principle applies to the captions under Accounts Receivable. Furthermore, it may not be necessary to comment upon some of the items at all. If, for example, under the head of Accounts Receivable it is desired to cover only the customers' accounts, it is wise to use the caption "Accounts Receivable - Customers - $150,000.00."

When commenting upon items appearing in the balance sheet or any other statement it is usually well to include the amounts of the items in the captions, as above. It is unnecessary to show the totals of groups such as Current Assets.

It is sometimes desirable to consolidate the presentation and comments. There are also cases where it seems desirable to include comments on particular items of a statement as part of that statement, that is, to make elaborate footnotes explanatory of, or qualifying, the several items.

It may be well to caution against making assertions in the report that may lay the accountant open to prosecution for

libel. This is a pertinent matter in connection with reports on alleged fraud. In doubtful cases the accountant should consult an attorney, or be very careful to qualify any accusations of guilt he may make.

Comments on Balance Sheet Items

Following is an outline of the points which may be covered in fairly complete comments on the audit of a manufacturing or mercantile corporation:

Cash. Unless the cash balance is detailed in the balance sheet, the comments may show the composition of the balance, as to the amounts on deposit and on hand, either in total or in detail. It is seldom necessary to give more detail of cash on hand than the amount of each of the funds. If any considerable amount of cash is represented by time certificates of deposit, that fact should be disclosed in the balance sheet.

It should usually be stated whether or not the cash balances have been verified, and if so, in what manner, as by obtaining certifications from depositaries and by count of the cash on hand at a certain date. If there are certificates of deposit, it is in order to state that they have been inspected.

If the working funds at the time of the count include an inordinate amount of advances or expense items, that should be brought out in the comments unless the accounts are adjusted; and even then it may be desirable to mention the condition with

respect to advances. When the audit is made some time after the date of the balance sheet, it is usually impossible to determine what the composition of petty cash funds was at that date, but it is appropriate, if necessary, to comment upon the condition of the funds at the time of the count.

Cash on deposit for restricted purposes, such as interest and dividend accounts, sinking fund deposits, escrow deposits, surety deposits, etc., will of course be verified and may be commented upon in the same manner as current funds, but such deposits should not be classified as current assets unless they represent funds for payment of current liabilities.

Notes and Acceptances Receivable. It is in order to state, in more or less detail, that these instruments were inspected, were found to have been collected subsequent to the date of the balance sheet, or were otherwise accounted for. If the notes are secured it may be stated that the collateral has been inspected. If any of the items are past due, or are known to have been renewed from time to time, the fact should be mentioned. In this connection, it is appropriate to remark in the comments upon the adequacy of the reserve for doubtful notes.

Accounts Receivable. Accounts receivable should usually be plainly designated in the balance sheet as to customers' accounts and others, and should therefore require no comment in that regard. If accounts other than customers' are

shown in one item, it is often desirable to give their details in the comments, together with any necessary remarks regarding their collectibility.

It should not be necessary to state that the trial balances of the subsidiary ledgers have been checked unless the aggregate of the detail accounts is, or has been, out of balance with the controlling account. If the accounts have not been verified except to the extent of determining that the aggregate of the details has been found to be in agreement with the amount shown by the general ledger, it may be desirable to state the fact.

If requests for confirmation have been sent to debtors, some information should be given in the comments regarding the proportion confirmed, both as to number of accounts so confirmed and their amount, and any important exceptions taken by the debtors.

Some comment should usually be made on the condition of the customers' accounts with respect to their age and probable collectibility - to give some indication of the actual value of the accounts and of the promptness with which collections are made. For this purpose it is seldom necessary to furnish a complete tabulation of the accounts by dates, but it is appropriate, in many cases, to summarize by periods the balances considerably in arrears. For example, it may be stated that "Included in the accounts at December 31, 1919, are charges dated as follows:

July 1 to September 30, 1919, ...	$10,000.00
April 1 to June 30, 1919, ...	5,000.00
January 1 to March 31, 1919, ...	2,000.00
Prior to January 1, 1919, ...	1,000.00"

While such information as the foregoing may be called for, it is generally unwise for an accountant to express an unqualified opinion regarding the collectibility of apparently doubtful accounts without having discussed them with the person handling credits. It may be stated that "The accounts were reviewed with the credit man, in whose opinion all are collectible", provided the accountant has no reason to disagree with the credit man; however, it is better, if possible, to make a more positive assertion, e. g.: "The accounts were reviewed with the credit man, and it appears that all but $_____ are collectible." Of course it is highly desirable, if possible, to state that "The accounts are current and appear to be collectible."

It is well to show a comparison of the amount of doubtful accounts with the amount of the reserve against such accounts.

Accrued Interest (And Similar Items) Receivable. It appears to be unnecessary for the auditor to comment upon such items unless there are unusual circumstances, as, for example, when the client's computation has been found incorrect and not rectified.

Inventories. Unless stated in the balance sheet, information should be given as to whether physical inventories

have been taken; also as to the prices used - whether they represent cost (actual or estimated), market values, or are arbitrary. If physical inventories have not been taken, something should be said regarding the apparent accuracy of the book inventories as to quantities, and the system employed as to values. Suoh values usually represent cost, but they may be the latest cost or the average cost over a certain period.

It is in order to state whether the accountant assumes any responsibility for the quantitative feature of the inventory, and the extent of verification of computations and prices. If there is any evidence of the inclusion of obsolete goods at full prices that fact should be stated.

Securities. It is appropriate to remark that securities owned or held for others (such as employees' Liberty Loan bonds) have been inspected or have been confirmed by pledgees or depositaries. In the case of temporary investments, if the market value is materially over or under the book value that fact should be mentioned, unless it is disclosed by the balance sheet or schedule. As to securities of subsidiary companies, unless a consolidated balance sheet is rendered, it is desirable, if practicable, to give some information regarding the value of the securities as disclosed by the books or reports of the subsidiary companies.

Sinking Fund. If the sinking fund provisions of mortgages are not being complied with, the fact should be the

subject of comment. The verification of securities and cash in the sinking fund, by certification of the trustee, may be mentioned.

Property. Unless the property is summarized, in the balance sheet or in a schedule by classes and locations, it may be well to give a summary in the comments. If the items of such classification are few, they are usually given in the balance sheet, and sometimes also in the comments; if many, they are usually shown in a schedule or not at all. It is often appropriate also to show a comparison of the depreciation reserves with the corresponding property accounts.

Many clients like to be informed regarding the changes in the property accounts during the audit period. The detail to which this is carried out depends obviously upon the size of the business. If an appropriation system is maintained, it is interesting to compare the expenditures for additions to property with the amounts appropriated therefor.

If the rates of depreciation are subject to criticism the fact should be noted in the comments. If the property accounts have not been examined prior to the current audit period it is in order to make a qualifying assertion to that effect.

Good-Will, Patents, Trade-Marks, Etc. Usually accounts of this character require comment only in cases where some special interest attaches to the question of the consideration given by the company for such assets, where amortization

has not been computed correctly, or where there has been a charge to the account during the audit period.

Deferred Charges. In the case of ordinary advance payments of expenses such as insurance, interest, and taxes, and also in the case of such items as discount on bonds, no comment seems necessary unless there has been a considerable change during the period, or unless there is an unadjusted difference of considerable amount between the computations of the accountant and those of the company. As to expenditures which are being amortized over indefinite periods, such as organization expenses, or items held in suspense, some explanation or qualification may be necessary.

Notes and Acceptances Payable. Unless a schedule of these liabilities is rendered, showing full details, it is usually appropriate to give in the comments some information regarding their maturities, the rate of interest, and any collateral security. The information may be given in the form of a summary. However, these details may have no practical value if considerable time has elapsed between the date of the balance sheet and the rendering of the report. Mention may be made of the verification of the amounts by confirmation of the payees, if confirmations have been obtained.

Accounts Payable. It is not necessary in most cases to state that the detail accounts payable are in agreement with the control. Of course, if they are not in agreement, the facts

should be stated. If the balance sheet item includes any considerable amount representing other than trade accounts, it may be desirable to show its composition in the comments.

Dividends Payable. It may be desirable to give in the comments details of this item as to whether common or preferred, when declared, and when payable.

Accrued Accounts (Payable). It may be wise in some cases to explain the items under this caption, especially if the accountant has set them up himself. It may be explained that the amount of accrued wages is a certain proportion of the pay-roll for a certain week. The class of taxes represented in the accrued account and whether the liability has been definitely determined or has been estimated upon a certain basis may also be pointed out. Any differences between the accountant's and the company's computations not sufficiently important to require rectification, may be made the subject of comment.

Funded Debt. It is in order to comment upon the verification of securities issued and those in the treasury. If there has been a change in the situation during the period under review it may be well to explain the change.

Deferred Credits. The comments, if any, to be made on these items will depend upon the circumstances in each particular case, the principle being that the balance sheet description of the items may be supplemented by the comments for adequate explanation or qualification.

Reserves for Depreciation. The location of the comments on these reserves is governed by the treatment of the reserves in the balance sheet; the subject should be covered under the head of the corresponding asset accounts if the reserves are deducted; otherwise, under the head of liabilities.

The comments will usually state the rates of depreciation for the several classes of property and summarize any charges to the reserves on account of replacements. They may also state whether the rates were applied to the book balances at the beginning or at the end of the period.

While accountants are not expected to be engineers or appraisers they are not warranted in overlooking deficient or excessive provision for depreciation; and if the rates used, or their application, is grossly irregular the accountant should protect himself by a qualification in the comments, if not in the balance sheet itself. It may be mentioned at this point that it is often appropriate to direct attention to the comments by reference to them in the items of the statements. This is usually done by the expression, in parentheses, "See comments."

Reserve for Doubtful Accounts. The principal point to be covered with regard to this reserve is its adequacy as indicated by the review of the account to which it relates. It may also be desirable to state the basis for the credits to the reserve and give information regarding the accounts written off against it during the period under review. All this may be appropriately covered under the caption Accounts Receivable.

Reserve for Taxes. In the opinion of the author, a provision for taxes not due is an accrued liability rather than a reserve, and the only justification for ever treating it as a reserve is on the ground of expediency. However, if it is shown in the balance sheet as a reserve the comments may amplify the description by explaining for what taxes provision is made and the basis for computation or estimate.

Reserve for Sinking Fund. In the opinion of the writer, whenever such a reserve is encountered the accountant should call attention to the fallacy and the ultimate effect of carrying it, which have been fully discussed under the same caption in Chapter II.

Reserve for Contingencies. Comment should be made upon the necessity, if any, for this reserve. For example, it may be stated that there is certain litigation pending or that the company is contingently liable in respect of certain endorsements or guaranties. Any charges to the reserve during the audit period should be explained. Any such reserve should be created by charges to Profit and Loss or Surplus; if not, the facts should be clearly stated in the report.

Capital Stock. Something may be said regarding the verification or examination of the capital stock. It may be stated that the number of shares outstanding at the date of the balance sheet was verified by certification of the registrar

or transfer agent; that the certificate book and stock ledger were examined and found to show the number of shares called for by the general ledger; or that the transfers during the period were checked. If there is treasury stock it is in order to state that the certificates therefor were inspected.

Any changes during the period in the capital stock outstanding, issued, or subscribed for will generally be commented upon. The consideration received by the company for new stock issues may be mentioned.

Surplus. Surplus may appear in the balance sheet as one or two items. If the entire surplus represents earnings, it is usually designated merely as Surplus; if not, the items are usually described by some such terms as Capital Surplus and Profit and Loss Surplus. This subject has been discussed more fully in Chapter II.

As to Capital Surplus, it is important that the report give, either in the balance sheet or in the comments, full information regarding the source of the surplus. The comments should also furnish an explanation of any changes in the account during the audit period.

The Surplus or Profit and Loss Surplus as shown on the balance sheet seldom requires comment, sufficient information being given in the supporting Statement of Income and Profit and Loss or in the summary contained in the balance sheet itself. However, it may be desirable to direct the client's special attention to certain charges or credits for the period, which

may or may not appear in the statements, or to furnish certain comparative figures or summaries by percentages, etc. - all of which may appropriately be given under the head of Operations. Some of these will be exemplified later.

If adjustments have been made in the preparation of the statements, which have not been entered on the books, it is well to furnish at least a reconcilement of the amounts of surplus as shown by the books and by the balance sheet. Such adjustments are often shown in a separate exhibit, in the form of journal entries or otherwise, but frequently the same practical object can be accomplished in a more concise manner by explaining in the comments the changes that have been made in the surplus as shown by the books.

Complete Comments

Following appears an illustration of fairly extensive comments on a complete audit of the accounts of a manufacturing corporation, prepared for the sole purpose of exemplifying the treatment of specific subjects and without any regard for cohesion or consistency.

JOHN DOE & COMPANY, INC.

COMMENTS ON THE AUDIT FOR THE YEAR ENDED DECEMBER 31, 1919

CASH - $10,549.27

The cash balance at December 31, 1919, consisted of the following:

On hand:	
New York office,	$ 500.00
Chicago office,	100.00
On deposit:	
Hanover National Bank, New York,	5,526.59
First National Bank, Chicago,	2,422.68
In transit from Chicago to New York,	2,000.00
Total,	$10,549.27

The cash on hand at New York was verified by count on January 6, 1920. The Chicago working fund was not verified except by reference to a report from that office. The balances on deposit were verified by certifications obtained from the banks, and the cash in transit was found to have been deposited in New York on January 3, 1920.

We suggest that consideration be given to restoring to the cash account the amounts of several pay-roll checks which have been outstanding for more than three years. We understand that the payees have left the employ of the Company and that no claim for payment has been made.

WORKING FUNDS - $2,000.00

The working funds are in the hands of salesmen, as evidenced by their reports on file.

All expenses had been cleared at December 31, 1919, but as reports are made weekly it frequently happens that expenses are not charged in the proper month. We suggest that reports be made on the 10th, 20th, and last day of each month.

NOTES AND ACCEPTANCES RECEIVABLE - $25,652.74

The notes and acceptances at December 31, 1919, were inspected by us, with the exception of those which had been collected from January 1 to 15, 1920. All are trade obligations, but two notes, aggregating $1,046.27, are past due. We are informed that these are regarded as collectible.

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[illegible]

[illegible]

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ACCOUNTS RECEIVABLE

CUSTOMERS - $105,326.27

The customers were not requested to confirm their balances. The accounts were reviewed in detail and were discussed with the Treasurer as to their collectibility. It appears that the probable losses will not exceed $5,000.00, which is well within the amount of the reserve provided for that purpose.

OTHERS - $5,976.43

These accounts are as follows:

C. D., employee - loan,	$1,000.00
Sundry employees - on account of Liberty Loan bond subscriptions,	3,250.00
Debit balances in Accounts Payable ledger, representing overpayments,	427.56
Railroad claims,	1,298.87
Total,	$5,976.43

The loan to C. D. is secured by a life insurance policy for $3,000.00 assigned to the Company, the cash surrender value of which is $1,126.47. Interest is being charged on the loan at 6%.

The amount of $3,250.00 due from employees on their subscriptions for Liberty Loan bonds was found to be supported by the detail records. Following is a summary of the accounts representing employees' subscriptions which had not been closed at December 31, 1919:

	Total	Third Loan	Fourth Loan	Victory Loan
Bonds subscribed for by employees and purchased by the Company,	$20,000.00	$5,000.00	$7,000.00	$8,000.00
Payments by employees,	16,750.00	4,750.00	6,500.00	5,500.00
Balance due from employees,	3,250.00	250.00	500.00	2,500.00
Bonds delivered to employees	16,500.00	4,700.00	6,400.00	5,400.00
Bonds held for delivery upon completion of payments,	3,500.00	300.00	600.00	2,600.00

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We inspected the bonds held, aggregating $3,500.00, as shown above.

The railroad claims are current, excepting two aggregating $325.46, which were filed in 1918 and which have not been prosecuted as diligently as possible. All of the claims appear to be valid.

MARKETABLE SECURITIES - $93,000.00

The securities carried as temporary investments are as follows:

	Par Value	Book Value
United States Liberty Loan bonds and notes:		
Second, 4%,	$25,000.00	$23,800.00
Fourth, 4-1/4%,	20,000.00	19,200.00
Victory, 4-3/4%,	25,000.00	25,000.00
United States Treasury 4-1/2% Certificates of Indebtedness, due May 15, 1920,	25,000.00	25,000.00
Total,	$95,000.00	$93,000.00

The above book values represent cost. The securities were inspected by us, with the exception of the Victory Loan notes, which are pledged as security for a note payable of $20,000.00.

INVENTORIES - $325,167.29

Physical inventories of finished goods, work in process, and materials and supplies were taken by employees of the Company as of December 31, 1919, and priced at cost as shown by the records.

The book costs of finished goods appear to be slightly excessive, as credits to the Finished Goods Inventory account during the year based upon such costs resulted in a reduction of the book inventory at the end of the year to approximately $50,000.00 below the physical inventory, which amount is about 3% of the recorded cost of goods sold. However, any overvaluation of finished goods is probably fully offset by an undervaluation of work in process, in the pricing of which no consideration is given to factory overhead expenses. We recommend that the unit costs established for finished goods be reviewed with a view to their reduction in some cases, and that hereafter in the valuation of work in process all elements of factory cost be included.

The inventory prices of materials and supplies, and the computations of all inventories, were tested by us.

INVESTMENTS - $125,341.89

The certificates for the 1,000 shares of capital stock of the E. F. Company (the entire issue) were examined by us. We have not audited the accounts of that Company, but a report on file shows a surplus of $32,659.87 at December 31, 1919, and net income of $20,000.00 for the year 1919. Dividends amounting to 10%, $10,000.00, were received during the year.

The item Real Estate, $25,341.89, represents business property in Bridgeport, Connecticut, which was taken over during

the year in settlement of notes receivable and interest, aggregating the amount at which the property is valued. The deed to the property was examined

SINKING FUND - $58,347.65

The securities and cash in the sinking fund at December 31, 1919, were verified by certification obtained from the trustee.

Following is a summary of the cash transactions of the trustee during the year:

Balance uninvested, January 1, 1919,......	$ 678.24
Paid by the Company, in accordance with the terms of the mortgage,.............	12,500.00
Total,............	$13,178.24
Purchases of the Company's bonds - $13,000.00 at 95%,......................	12,350.00
Balance uninvested, December 31, 1919,....	$ 828.24

The discount of $650.00 on the bonds purchased during the year was credited to Profit and Loss, as shown by Exhibit "B."

PROPERTY (less reserves for depreciation) - $226,000.00

We examined the larger entries in the property accounts from the organization of the Company in 1910, and audited in detail the entries during the year 1919. Except as otherwise noted, the balances appear to represent the cost of the property now in service.

The property is summarized by locations and book values as follows:

	Total	Chicago	Boston	New York
Land, ...	$ 75,000.00	$ 50,000.00	$ 25,000.00	
Buildings, ...	125,000.00	75,000.00	50,000.00	
Machinery and factory equipment, ..	100,000.00	50,000.00	30,000.00	$20,000.00
Automobiles, horses, and wagons, ...	5,000.00	2,000.00	1,000.00	2,000.00
Office furniture and appliances, ..	5,000.00	1,000.00	1,000.00	3,000.00
Total, ...	$310,000.00	$178,000.00	$107,000.00	$25,000.00

LAND

The book value of the land at Chicago was appreciated $20,000.00 during the year 1916 by credit to surplus. We are informed that this action was based upon an independent appraisal, and that the present valuation, $50,000.00, is regarded as conservative.

BUILDINGS

During the year 1919 a new foundry building was constructed at Boston, at a cost of $15,000.00, which is $2,500.00 in excess of the appropriation by the Directors.

Considerable improvements were made to the Chicago machine shop building and were charged to the Repairs account. Attention is directed to the fact that under the Federal income tax law such charges cannot properly be treated as expenses; they should therefore be capitalized and written off by periodical depreciation.

MACHINERY AND FACTORY EQUIPMENT

The entries in these accounts during the year 1919 are summarized as follows:

	Chicago	Boston
Charges:		
Generator and installation,	$10,000.00	
Lathes,	3,000.00	$2,000.00
Miscellaneous new equipment,	1,000.00	500.00
Total,	$14,000.00	$2,500.00
Credits:		
Sale of old lathes,	$ 500.00	$ 300.00
Loss on old lathes, charged to Reserve for Depreciation,	1,500.00	1,200.00
Total,	$ 2,000.00	$1,500.00
Net Increase,	$12,000.00	$1,000.00

AUTOMOBILES, HORSES, AND WAGONS

The only ohange in these accounts during the year 1919 was for the purchase in New York of a new truck for $1,000.00, an old truck which cost $800.00 being turned in as part payment at a valuation of $300.00. The net charge to the account was $700.00, no consideration having been given to the loss of $500.00 on the old truck. This account should, therefore, be credited, and the corresponding Reserve for Depreciation charged, with $500.00. We have made no adjustment, as we are informed that the matter will be rectified on the books in the month of January, 1920.

RESERVES FOR DEPRECIATION

Following is a summary of these reserves at December 31, 1919, and the rates of depreciation for the year 1919, applied to the balances of the respective property accounts at the beginning of the year:

	Amount	Per Cent
Buildings,	$20,000.00	2-1/2
Machinery and factory equipment,	60,000.00	10
Automobiles, horses, and wagons,	2,500.00	20
Office furniture and appliances,	1,500.00	10
Total,	$84,000.00	

The rate of depreciation of machinery and factory equipment appears to be excessive, as the amount of the reserve is now 60% of the gross book value, and a considerable part of the machinery, etc., is comparatively new.

We recommend that the reserve accounts be analyzed by locations, and that separate reserves be carried, corresponding to the asset accounts.

PATENTS - $114,000.00

The cost of patents has been amortized by charging to expenses each year 1/17th of the original valuation. Consideration has not been given, however, to the proportion of value expired at the time certain patents were acquired.

The original and present book values of the several patents, and the amounts written off as amortization, are as follows:

Patent	Original Valuation	.......Amortization....... 1919	Total	Present Valuation
"A"	$ 68,000.00	$ 4,000.00	$24,000.00	$ 44,000.00
"B"	51,000.00	3,000.00	27,000.00	24,000.00
"C"	34,000.00	2,000.00	4,000.00	30,000.00
"D"	17,000.00	1,000.00	1,000.00	16,000.00
Total,..	$170,000.00	$10,000.00	$56,000.00	$114,000.00

The correct amortization for the year 1919, and to December 31, 1919, is computed as follows:

Patent	Year of Purchase	Year of Expiration	..........Amortization.......... Per Annum	Year 1919	To December 31, 1919
"A"	1913	1923	1/10	$ 6,800.00	$40,800.00
"B"	1910	1927	1/17	3,000.00	27,000.00
"C"	1917	1932	1/15	2,266.67	4,533.33
"D"	1918	1935	1/17	1,000.00	1,000.00
			Total,.........	$13,066.67	$73,333.33

From the foregoing it will be seen that the book value of patents should be reduced $17,333.33 as of December 31, 1919, of which amount $3,066.67 is chargeable against the income for the year ended on that date. No adjustment of this difference has been made by us, but we recommend that the accounts be corrected during the year 1920.

DEFERRED CHARGES

TAXES PAID IN ADVANCE - $2,000.00

The balance of this account on the books is $500.00. We have made an adjustment, as shown in Exhibit "C", setting up the proportion, $1,500.00, of Federal capital stock taxes for the year ending June 30, 1920, paid in advance at December 31, 1919.

UNAMORTIZED DISCOUNT ON BONDS - $36,000.00

Following is a summary of this account for the year:

Balance, January 1, 1919,	$28,400.00
Discount on $200,000.00 first mortgage bonds sold at 95,	10,000.00
Total,	$38,400.00
Less amortization - charged to income,	2,400.00
Balance, December 31, 1919,	$36,000.00

This balance of $36,000.00 represents the proportion of the total discount, $48,000.00, applicable to the remaining term of the bonds, fifteen years.

REAL ESTATE OPTION - $500.00

This item represents a payment for an option to purchase certain real estate, which expires February 15, 1920. We

are informed that the company does not expect to exercise its option.

UNAMORTIZED ORGANIZATION EXPENSES - $10,000.00

The organization expenses, which originally amounted to $40,000.00, are being amortized by charges to Profit and Loss of $5,000.00 per annum.

NOTES AND ACCEPTANCES PAYABLE - $121,346.27

These liabilities are summarized by payees and maturities as follows:

Bank loans:		
Guaranty Trust Company, New York - February, 1920,..		$ 50,000.00
Old Colony Trust Company, Boston:		
January, 1920,..........................	$25,000.00	
March, 1920,...........................	25,000.00	50,000.00
Trade acceptances - January and February, 1920,.......		21,346.27
Total,......................		$121,346.27

The amounts of the bank loans were confirmed by the payees. Interest on those loans is at the rate of 5-1/2%.

ACCOUNTS PAYABLE - $237,925.20

The composition of accounts payable at December 31, 1919, is as follows:

Unpaid Vouchers:		
Balance of general ledger account,.....	$215,346.94	
Debit balances included therein treated by us as accounts receivable,........	4,562.94	$219,909.88
Credit balances in accounts receivable treated by us as accounts payable,................................		2,963.47
Purchase invoices not vouchered, but materials included in inventory - adjustment as shown in Exhibit "C",......................................		12,427.32
Taxes due, transferred by us from Accrued Taxes,......		2,624.53
Total,......................		$237,925.20

The net credit balances of unpaid vouchers as shown by the detail records aggregated $215,637.81, or $290.87 more than the balance of the controlling account in the general ledger. This difference has not been thoroughly investigated by us, but it appears that the controlling account is correct. We recommend that the entries for payments of vouchers from October 1 to December 31, 1919, be checked as soon as possible. It was noted that there are several vouchers entered in 1918 which have not been paid. As to two of these, viz., #3247, $125.00, and #5964, $78.52, no explanation could be given. These matters should be investigated.

ACCRUED WAGES - $5,427.23

As the company, in closing its accounts, does not take into consideration accrued wages, we have set up a liability for one-half of the pay-roll for the week ended January 3, 1920.

ACCRUED INCOME AND EXCESS PROFITS TAXES - $25,000.00

The amount of this accrual represents the company's estimate of Federal taxes for the year ended December 31, 1919. The company will join in a consolidated tax return with other companies controlled by the same interests, and we are therefore unable to verify the adequacy of the provision.

FIRST MORTGAGE, 5% BONDS - $500,000.00

The amount of bonds outstanding at December 31, 1919, was verified by certification obtained from the trustee.

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During the year, $200,000.00 of bonds were executed and sold at 95. This completed the authorized issue.

RESERVE FOR DOUBTFUL ACCOUNTS - $8,250.00

The balance of this reserve increased $3,250.00 during the year, as follows:

Credits:		
Provision - 1% of gross sales,	$10,000.00	
Recoveries on accounts previously written off, ...	850.00	$10,850.00
Charges - uncollectible accounts written off, ...		7,600.00
Net Increase, ...		$ 3,250.00

RESERVE FOR CONTINGENCIES - $100,000.00

This reserve was established during the year to provide against any loss that may be sustained through a possible adverse decision in a pending suit against the company for damages of $75,000.00 for alleged infringement of a patent. We are informed by the President that the amount of $100,000.00 is ample provision for any contingency that may arise which is not otherwise specifically provided for.

PREFERRED CAPITAL STOCK - $500,000.00
COMMON CAPITAL STOCK - $375,000.00

The number of shares of preferred and common capital stock issued at December 31, 1919, was verified by certification obtained from the registrar.

During the year 100 shares of treasury common stock were sold at par, for cash. Certificates for the 250 shares re-

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maining in the treasury at December 31, 1919, were inspected by us.

INCREASE IN CAPITAL EMPLOYED IN THE BUSINESS

The capital employed in the business was increased $128,018.67 during the year, as follows:

Increase in assets:		
Current assets, less reserves against accounts receivable,		$227,652.49
Investments,		34,958.00
Property, less reserves for depreciation,		3,247.65
Deferred charges,		1,920.59
Total,		$267,778.73
Less increase in liabilities and reserve for contingencies,		139,760.06
Net increase in capital employed in the business,		$128,018.67
Derived from:		
Increase in capital stock outstanding,		$ 10,000.00
Surplus for the year, after providing for depreciation, estimated Federal taxes, and contingencies,	$168,018.67	
Less dividends declared and paid,	50,000.00	118,018.67
Total,		$128,018.67

OPERATIONS

Following are the percentages of increase in some of the major items of Exhibit "B" for the year 1919, as compared with the corresponding items for the year 1918:

	Per Cent.
Net sales,	26.47
Cost of goods sold,	15.63
Gross profit,	69.83
Selling expenses,	6.52

General expenses:	
Salaries,	11.13
Other,	4.32
Profit from operations,	96.59
Income credits,	8.56
Income charges,	17.95
Net income,	126.17

The increase in the number of implements sold during the year, as compared with the preceding year, was 1249, or 5.27%.

The approximate turnover of finished goods and materials during the years 1919 and 1918 is shown as follows:

	1919	1918
Finished goods inventory:		
Beginning of year,	$150,000.00	$100,000.00
End of year,	200,000.00	150,000.00
Average,	175,000.00	125,000.00
Cost of goods sold,	700,000.00	625,000.00
Turnover of finished goods - times,	4	5
Raw materials inventory:		
Beginning of year,	50,000.00	30,000.00
End of year,	70,000.00	50,000.00
Average,	60,000.00	40,000.00
Value of materials in goods manufactured	300,000.00	240,000.00
Turnover of raw materials - times,	5	6

The comparatively slow movement of stocks of finished goods and materials during the year 1919, as shown above, which is due to unsettled labor and transportation conditions, undoubtedly explains to a large degree the increase in interest charges during the year.

INSURANCE

The fire insurance in force at December 31, 1919, was as follows:

Buildings, ...	$100,000.00
Machinery and other equipment	100,000.00
Merchandise, ...	200,000.00

The inventory value of merchandise at that date was approximately $325,000.00. As the policies carry the 80% co-insurance clause, in event of partial loss the company could recover only about 10/13 of such loss.

While the insurance on buildings, machinery, etc., is adequate to reimburse the company for the cost of the property less depreciation, that is, the net book value, it is probable that the company is not protected to the amount of the replacement value of the property, in view of the advance in costs. We recommend that this matter be investigated. It may be advisable to have the property appraised.

The liability insurance carried appears to be adequate.

GENERAL

We did not have access to the minutes of the meetings of stockholders and directors.

The accounts and records are well kept with the exception of the voucher register; as to that, we are informed that there are extenuating circumstances. The accounting system appears to be subject to criticism only in respect of the lack of co-ordination between the general accounting and cost records. In our opinion the cost system should be made an integral part of the general accounting scheme.

* * * * *

Condensed Comments

The following is a condensation of the complete comments immediately preceding, prepared upon the assumption that the client is not himself interested in most of the information contained therein, and that he desires to submit the report to a prospective lender.

JOHN DOE & COMPANY, INC.

COMMENTS ON THE AUDIT
FOR THE YEAR ENDED DECEMBER 31, 1919

GENERAL

All the usual and necessary verifications of the accounts incident to a complete audit were made by us, except that we did not have access to the minute book.

NOTES AND ACCEPTANCES RECEIVABLE
ACCOUNTS RECEIVABLE

The notes and acceptances are all trade obligations, and, with the exception of $1,046.27, none is past due. The customers' accounts are reasonably current. It appears that such loss as may be sustained in the collection of any of these items will not exceed the amount provided in the reserve for doubtful accounts.

Of the $5,976.43 of accounts receivable other than with customers, $4,250.00 represents secured advances to employees and $1,298.87 represents claims against railroads.

MARKETABLE SECURITIES

These securities are as follows:

United States Liberty Loan bonds and notes, par value $70,000.00 - cost, ...	$68,000.00
United States Treasury 4-1/2% Certificates of Indebtedness, due May 15, 1920 - par value, ...	25,000.00
Total, ...	$93,000.00

United States Victory Loan notes amounting to $25,000.00 are pledged as collateral to a note payable of $20,000.00.

INVENTORIES

Physical inventories of finished goods, work in process, and materials and supplies were taken by employees of the company as of December 31, 1919, and priced at cost as shown by the records. The computations were verified by us, and the prices found to be approximately correct.

INVESTMENTS

The company owns all the stock of the E. F. Company, which is carried at par value, $100,000.00. We have not audited the accounts of that company, but a report on file shows a surplus of $32,659.87 at December 31, 1919, and net income of $20,000.00 for the year 1919, one-half of which was paid in dividends.

The real estate carried as an investment is business property in Bridgeport, Connecticut, which was taken over in settlement of a debt, at the amount of which the property is carried on the books.

PROPERTY

The company has been conservative in its capital charges and provision for depreciation. It appears that the gross book values do not exceed the cost of the property, excepting the land at Chicago, valued on the books at $50,000.00, which includes $20,000.00 representing appreciation in the year 1916.

PATENTS

The company's patents are carried on the books at cost less amortization. However, in the computation of amortization consideration has not been given to the proportion of value expired at the time certain patents were acquired. Adjustment of these errors would effect a reduction of $17,333.33 in the book value at December 31, 1919, and of $3,066.67 in the net income for the year 1919 as shown by Exhibit "B."

NOTES AND ACCEPTANCES PAYABLE

The notes and acceptances payable are summarized by classes and maturities as follows:

Bank loans:	
January, 1920,	$ 25,000.00
February, 1920,	50,000.00
March, 1920,	25,000.00
Trade acceptances - January and February, 1920,	21,346.27
Total,	$121,346.27

ACCRUED INCOME AND EXCESS PROFITS TAXES

The amount of this accrual represents the company's estimate of Federal taxes for the year ended December 31, 1919. The company will join in a consolidated tax return with other companies controlled by the same interests, and we are therefore unable to verify the adequacy of the provision.

RESERVE FOR CONTINGENCIES

We are informed by the President of the company that the amount of this reserve, $100,000.00, is ample provision for any contingency that may arise which is not otherwise specifically provided for. The only contingency which has been brought to our attention, other than on account of discounted notes receivable, as shown in Exhibit "A," is a suit against the company for damages of $75,000.00 for alleged infringement of a patent.

CHAPTER VII

CERTIFICATES

GENERAL REMARKS

Formal certificates in an audit report may be made a separate part of the report, or may be appended to the balance sheet or other statement, or may form a part of the presentation, depending upon the circumstances of the case. It has been the experience of the author that when the client desires a formal certificate he usually wants it short and concise. This appears to be a good reason for separating the certificate from the presentation or comments. If a complete audit has been made, and two or more statements are included in the report, it will generally be found preferable to render the certificate separately. If only one statement is rendered, as in a balance sheet audit, it is usually desirable to append the certificate to the statement certified.

VARIETY OF FORMS

Following is a simple form of separate certificate:

JOHN DOE & COMPANY

CERTIFICATE OF AUDIT

I have audited the accounts of John Doe & Company for the year ended December 31, 1919, and

I HEREBY CERTIFY that, in my opinion, the accompanying Bal-

ance Sheet as of December 31, 1919, and Statement of Income and Profit and Loss for the year ended that date are correct.

(Signed) Richard Roe

Certified Public Accountant.

New York,

March 10, 1920.

Material qualifications regarding the verification of accounts should be embodied in the certificate, as the client is justified in publishing the certificate without the accompanying comments. If no specific qualifications are included, the only alternative is to insert in the certificate "subject to the accompanying comments". But this is very unsatisfactory. Following is a form exemplifying the inclusion of specific qualifications in the certificate rendered separately:

New York, March 10, 1920.

Mr. John Doe,

President, John Doe & Company, Inc.,

New York.

Dear Sir:

I have audited the accounts of John Doe & Company, Inc., for the year ended December 31, 1919, and

I HEREBY CERTIFY that, in my opinion, subject to no provision having been made for depreciation of property or for

Federal taxes for the year, the accompanying Balance Sheet and Statement of Income and Profit and Loss correctly exhibit, respectively, the financial condition of the Company at December 31, 1919, and the results of its operations for the year ended that date.

(Signed) Richard Roe
Certified Public Accountant.

It is sometimes desired to make specific reference in the certificate to certain features of the audit; also to bring out the fact that the books are in agreement with the accounts as stated. These points are exemplified in the following:

New York, March 10, 1920.

To the Stockholders of
John Doe & Company, Inc.

I have made an audit of the accounts of your Company for the year ended December 31, 1919, including verification of all accounts representing cash and securities as of December 31, 1919, either by physical examination of such assets or by obtaining certifications of depositaries and trustees as to their custody, and also including detailed examination of all charges to capital accounts during the year; and I Certify that, in my opinion, the accompanying Balance Sheet and Statement of Income and Profit and Loss are correct, and that the books are in agreement therewith.

(Signed) Richard Roe
Certified Public Accountant.

Following are forms of the audit certificate typed at the bottom of a balance sheet:

CERTIFICATE OF AUDIT

I have audited the accounts of John Doe & Company for the year ended December 31, 1919, and certify that, in my opinion, the above Balance Sheet is correct.

(Signed) Richard Roe

Certified Public Accountant.

New York,

March 10, 1920.

CERTIFICATE OF AUDIT

Having audited the accounts of John Doe & Company for the year ended December 31, 1919, and for several years prior thereto, I certify that the above Balance Sheet and the accompanying Statement of Income and Profit and Loss are correct.

(Signed) Richard Roe

Certified Public Accountant.

New York,

March 10, 1920.

CERTIFICATE

We have examined the accounts of The Black & White Company as of December 31, 1919.

No provision has been made for depreciation, for Federal taxes, or for such loss as may be sustained on account of pending litigation.

WE HEREBY CERTIFY that, with the foregoing exceptions, and subject to the Company's valuation of inventories, in our opinion, the above Balance Sheet is correct.

(Signed) Gray & Brown

Certified Public Accountants.

New York,

March 10, 1920.

CERTIFICATE

We have audited the accounts of Black, White & Company as of December 31, 1919; have tested the computations and prices of the inventories, which were taken by employees of the Company and valued at cost; have certified the cash balances and securities; have examined all charges to property accounts; and

WE CERTIFY that, in our opinion, the above Balance Sheet is a true and correct statement of the Company's financial condition at December 31, 1919, and that the books of the Company are in agreement therewith.

(Signed) Gray & Brown

Certified Public Accountants.

New York,

March 10, 1920.

It will be seen that there is a great variety of forms of certificate in use. The form should be adapted in each case to the peculiar conditions. It will frequently be found that the by-laws of a company require that a certified public accountant be employed and that he shall report upon certain specific matters or in certain language. For example, one company requires that the certificate state that the "balance sheet is a full and fair balance sheet, and properly drawn up so as to exhibit a true and correct view of the state of the corporation's affairs." The English form of certificate which is used in reports on audits of companies reads in part somewhat as follows: "We certify that, in our opinion, the attached balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the company."

QUALIFICATIONS

The expression "in our opinion" is in quite general use. It hardly amounts to a qualification, as it is utterly impossible for any one to express more than an opinion regarding most balance sheets. The phrase may be dispensed with if desired, unless the statement which is being certified to contains some item which particularly represents the accountant's opinion. Most clients regard the expression as innocuous, and therefore, unobjectionable.

When certifying to the correctness of a statement it is considered proper to regard as part of the statement any footnotes and other explanatory or qualifying remarks appearing thereon. Qualifications regarding inventories may be taken to illustrate this practice. It is comparatively seldom that auditors are engaged to supervise the taking of physical inventories, so that in most cases it is impracticable for the auditor to form a very conclusive opinion regarding the accuracy of the inventories as to quantities, and it may be necessary for him to relieve himself of responsibility on this point by inserting a qualification in the certificate.

Some accountants always qualify the certificate as to the quantitative feature of inventories; others make no mention of it, believing that they are not expected to verify quantities and that every one reading the report is charged with knowledge of the usual practice in that respect; and still others indicate any qualifications in the balance sheet item. It appears that the best practice in most cases is to qualify the balance sheet item whenever any qualification is regarded as necessary. Assuming that it is impossible without the expenditure of a great deal of time to form an intelligent opinion regarding the approximate correctness of the quantitative feature of the inventory as a whole or in certain parts, and that inquiry concerning the method pursued in the taking of the inventory does not convince of its accuracy, the question still remains as to the expediency of qualifying the report in view of the under-

standing with the client and the size of the business. If the accountant decides that he should protect himself, or others, and if he has no special reason for doubting the accuracy of the inventories, he may state the items in the balance sheet which is being certified somewhat as follows:

Inventories as Taken by the Company:
  Finished Goods
  Work in Process
  Materials and Supplies.

If, in addition, the accountant has been unable to form an opinion regarding the accuracy of the inventory prices, or if he has been definitely instructed not to undertake their verification, he may state the balance sheet caption thus: "Inventories as taken and valued by the company." If physical inventories have not been taken, the item may be expressed as "Inventories - Book Value."

The practice of qualifying the balance sheet itself may apply to any of its items, and will be found quite effective. There are cases, however, when it seems necessary to emphasize qualifications by repeating them in the certificate.

CHAPTER VIII

PRESENTATIONS

TWO GENERAL PRACTICES

There are two general practices with regard to the form of presentation of audit reports. In both, the client is formally advised that the audit has been made and a table of contents of the report, as to statements, is given. Perhaps the majority of accounting firms then follow immediately with their comments (which are often concluded with a certificate), all appearing above the signature. Manifestly, the comments will then be read before the statements, which are regarded by the great majority of accountants as the most important part of their reports, with the possible exception of their certificates. The alternative method, which is preferred by the author, is to submit the comments as a separate part of the report, completing the presentation with the signature without inclusion of the comments except by reference in the table of contents. By this method greater prominence is given to the statements without relegating the text matter to an inconspicuous place. This procedure is, of course, subject to change in exceptional cases; in fact, exceptions are so common in almost all phases of the subject that it is sometimes difficult to see above them to what is regarded as the rule.

Whichever method is adopted, the part of the report appearing above the signature should contain a terse description

of the work done and show what is rendered therewith. This latter should be so explicit that no misunderstanding can possibly arise concerning what constitutes the report. The subject of safeguards is covered more fully in Chapter IX.

When the first part of the report is limited to a formal statement of what has been done and what accompanies it as comprising the report, it is variously described as the letter, introduction, or presentation. The word "presentation" seems to be most appropriate and is employed in this work.

FORMS OF PRESENTATION

In the succeeding pages are illustrated a number of forms of presentation, designed to show the treatment under varying conditions as to the number and character of statements rendered and the scope and purpose of the work performed.

Following is a form of presentation that may be used, with amplification if necessary, in the great majority of cases:

New York, March 10, 1920.

Messrs. John Doe & Company,

New York.

Dear Sirs:

Pursuant to engagement, I have made an audit of your accounts for the year ended December 31, 1919, and submit herewith six pages of comments and the following described exhibits:

EXHIBIT

"A" - BALANCE SHEET, DECEMBER 31, 1919.

"B" - STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1919.

Yours truly,

(Signed) Richard Roe,

Certified Public Accountant.

The following illustrates a more elaborate report as to statements, and also exemplifies the procedure in case only certain qualifying comments are to be rendered:

New York, March 10, 1920.

Mr. John Doe,

President, John Doe & Company, Inc.,

New York.

Dear Sir:

In accordance with your request, I have audited the accounts of John Doe & Company, Inc., for the year ended December 31, 1919, and submit herewith my certificate and the following described exhibits, schedules, and statement:

EXHIBIT
"A" - BALANCE SHEET, DECEMBER 31, 1919.
Schedule
#1 - Receipts and Expenditures on Uncompleted Contracts.
2 - Notes Payable.

"B" - SUMMARY OF INCOME AND PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1919.
Schedule
#1 - Profit on Completed Contracts.
2 - General Expenses.
Statement
#1 - Branch Office Expenses.

"C" - JOURNAL ENTRIES NECESSARY TO ADJUST THE BOOKS AS OF DECEMBER 31, 1919, TO CONFORM TO EXHIBIT "A".

The Company's equipment was revalued by its officers as of December 31, 1919, resulting in a credit to Profit and Loss of $100,000.00. It appears that this appreciation represents the increase in replacement values due to abnormal conditions.

The valuation of materials and supplies as of December 31, 1919, is as shown by the books, no physical inventory having been taken. Tests of the inventory records indicate that they are approximately correct.

Yours truly,

(Signed) Richard Roe,

Certified Public Accountant.

Following is a form of presentation covering the audit of a group of companies:

New York, March 10, 1920.

Mr. John Doe,

President, The A. B. Corporation,

New York.

Dear Sir:

Pursuant to engagement, I have audited, for the period from July 1, 1918, to December 31, 1919, the books and accounts of The A. B. Corporation and its subsidiary companies, The C. D.

Company and E. F. & Company, Inc. (the latter from the commencement of business, March 15, 1919), and submit herewith seven pages of comments, my certificate, and the following described exhibits:

THE A. B. CORPORATION
AND SUBSIDIARY COMPANIES

EXHIBIT
"A" - CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1919.

"B" - SUMMARY OF CONSOLIDATED INCOME AND PROFIT AND LOSS, BY PERIODS, FROM JULY 1, 1918, TO DECEMBER 31, 1919.

THE C. D. COMPANY

"C" - BALANCE SHEET, DECEMBER 31, 1919, AND JUNE 30, 1918, AND COMPARISON.

"D" - STATEMENT OF INCOME AND PROFIT AND LOSS, BY PERIODS, FROM JULY 1, 1918, TO DECEMBER 31, 1919.

E. F. & COMPANY, INC.

"E" - BALANCE SHEET, DECEMBER 31, 1919.

"F" - STATEMENT OF INCOME AND PROFIT AND LOSS, FROM THE COMMENCEMENT OF BUSINESS, MARCH 15, 1919, TO DECEMBER 31, 1919.

Yours truly,

(Signed) Richard Roe,

Certified Public Accountant.

Following is a form of presentation covering a balance sheet audit, where only one statement is rendered:

New York, March 10, 1920.

Messrs. Black and White,
New York.

Dear Sirs:

Pursuant to engagement, we have made an audit of your accounts as of December 31, 1919, and submit herewith three pages of comments and a -

BALANCE SHEET, DECEMBER 31, 1919.

Yours truly,
(Signed) Gray & Brown.

The following illustrates the manner of showing, without any comments, exhibits and schedules with different dates:

New York, March 10, 1920.

The Black & White Company,
New York.

Dear Sirs:

Pursuant to engagement, we have audited the accounts of The A. B. Corporation for the year ended December 31, 1919, and submit herewith our certificate and the following described exhibits and schedules:

EXHIBIT
"A" - BALANCE SHEET, DECEMBER 31, 1919 AND 1918, AND COMPARISON.
Schedule
#1 - Investment Securities, December 31, 1919.

"B" - STATEMENT OF INCOME AND PROFIT AND LOSS FOR THE YEARS ENDED DECEMBER 31, 1919 AND 1918, AND COMPARISON.
Schedule
#1 - Cost of Goods Sold for the Year Ended December 31, 1919.

Yours truly;

(Signed) Gray & Brown.

The following form suggests further variations:

New York, March 10, 1920.

Messrs. Black & White,

New York.

Dear Sirs:

Pursuant to engagement, we have made an examination for the purpose of verifying your assets and liabilities as of December 31, 1919, and submit herewith the following described exhibits and schedule:

EXHIBIT
"A" - BALANCE SHEET, DECEMBER 31, 1919, WITH CERTIFICATE.
Schedule
#1 - Bonds, Stocks, and Other Securities Owned.

"B" - STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1919 (Prepared from the books without verification).

Yours truly,

(Signed) Gray & Brown,

Certified Public Accountants.

A form similar to the following may be used in certain cases:

New York, June 10, 1920.

Messrs. John Doe and Richard Roe,

Auditing Committee, The Blank Trust Company,

New York.

Dear Sirs:

In accordance with your request, we have collaborated with you in examining the accounts of The Blank Trust Company as of the close of business May 27, 1920. We counted the cash and cash items on hand and ascertained that the cash items were properly disposed of; we verified the cash balances and collection items in the accounts due to and from other banks and trust companies; we inspected the evidences of loans and the collateral thereto as called for by the records, and found that all collateral loans are properly secured, as indicated by the most reliable quotations available (those other than published quotations having been discussed with you); we verified the investment securities and found that the market value was

$27,633.19 less than the book value; we ascertained that the aggregates of the several classes of deposits as shown by the general books were in agreement with the detail accounts, but did not request confirmation of the balances by the depositors; we accounted for all securities and other property held in trust and for safe-keeping as shown by the records.

The records are suited to the needs of the company, and are well kept.

We submit herewith a Statement of Financial Condition at the close of business May 27, 1920.

Yours truly,

(Signed) Gray & Brown.

The following form illustrates the method of qualifying the report with respect to the source of the information contained in the statements:

New York, March 15, 1920.

The A. B. Corporation,

New York.

Dear Sirs:

Pursuant to engagement, we have audited, for the year ended December 31, 1919, the books and accounts of The A. B. Corporation, and have audited the New York books and accounts of its subsidiary companies, The C. D. Company and E. F. & Company,

Inc., accepting the reports of foreign representatives and other accountants relating to their operations. We submit herewith six pages of comments and the following described exhibits:

EXHIBIT
"A" - CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1919.

"B" - SUMMARY OF CONSOLIDATED INCOME AND PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1919.

Yours truly,

(Signed) Gray & Brown.

INDEXING OF PARTS OF REPORT

Some accountants, especially in elaborate reports, number each page and index the several parts on the presentation, somewhat as follows (the full descriptions of the statements being also shown):

	Page
Certificate	1
Comments	2-10
Exhibit "A"	11
Schedule #1	12-13
Schedule #2	14-15
Exhibit "B"	16

In the great majority of reports the extra labor involved in this procedure appears to be unwarranted, especially

if the designations of folded statements be also shown on the outside.

If a report is to be rendered in which there are no statements, but voluminous text matter, the whole report should be made in the form of a letter, signed at the end.

CHAPTER IX

MECHANICAL FEATURES AND OFFICE PROCEDURE

SAFEGUARDS AGAINST MISUSE OF REPORTS

Much has been said and written concerning the safeguarding of audit reports against their misuse by unscrupulous persons. Some accountants employ various kinds of seals on their reports so that no part thereof may be extracted without mutilating the sheet or breaking the seal; others have imprinted on each sheet of the statements words to the effect that such statements must be considered only in conjunction with the accompanying comments and that they may be used separately only by permission of the accountant. While some of these safeguards may be effective and also consistent with the professional character of the reports, in the opinion of the author adequate protection for all interests concerned may be obtained by making the introduction to a report, which is signed by the accountant, explicit as to the composition of the report. As a further precaution, however, each sheet of the report may be water-marked or imprinted with the name of the accountant.

If a detached statement is submitted to a third person as having been received from a professional accountant, that person may know that the statement is authentic if the sheet is water-marked or imprinted with the name of the accountant, but unless the practice of thus marking the sheets is general and is widely known, he may not be able to detect a spurious statement

[illegible]

[illegible]

[illegible]

[illegible]

that is not so marked; however, in any event, it seems that ordinary business caution would lead the third person to demand evidence that the statement was not improperly extracted from a report that might contain qualifications, by insistence upon seeing the signature of the accountant. The author has yet to hear of a case where such improper use has been made of part of a signed report of a professional accountant. If the question were serious perhaps it would be advisable not to use any mark of identification on the paper, as there would then be no evidence that the statement was prepared by an accountant.

It is likely that nearly all cases of misuse of accountants' statements by unscrupulous or careless persons arise from misplaced confidence by the accountants in giving out statements informally - perhaps pencil drafts for bookkeeping purposes - which are typewritten and submitted as having been prepared by the accountant. While in such cases no fault can be attributed to the accountant, in the opinion of the author nothing that might possibly be construed as a report should be rendered except over the accountant's signature, with appropriate qualifications if necessary.

In short, the only practical safeguard lies in the accountant's attaching his signature to nothing for which he does not assume responsibility, and to everything which might be construed as a report, including all carbon copies.

As previously stated, if a certificate is appended to a statement the client could not be criticized for exhibit-

ing the certified statement as the report of the accountant, for the reason that any material qualifications should be contained in the certificate.

PAPER AND BINDING

It is entirely a matter of personal preference as to what kind of paper shall be used and how reports shall be bound. However, the paper should be thin enough to make several good carbon copies and still be of sufficiently good quality to withstand erasures and to permit of writing with a pen. Onion-skin paper has proved to be satisfactory.

Various sizes of paper are in use by accountants, ranging from letter size, 8-1/2" x 11", to about 9-1/4" x 13" and 8-1/2" x 14". When the reports are bound at the top an 8-1/2 inch sheet is generally used; if they are bound at the side at least a half-inch more margin must be left, so that a nine-inch sheet is none too wide. Well-proportioned sizes are 9" x 12" to 14" if bound at the side, and 8-1/2" x 12" to 14" if bound at the top. It is thought that fourteen inches is a good length, as most statements seem to require that much space without crowding. In the determination of the size of the paper, consideration should be given to economy in purchasing; 8-1/2" x 11" or 14" and multiples thereof are stock sizes.

The majority of accountants bind their reports at the side, with a paper cover and eyelet fasteners. Some use

leather covers, imprinted in gold. There are many different devices and methods of folding covers for securely fastening the sheets, which will not be discussed in detail. Whether the binding be at the side or the top, it is necessary, in using large sheets which must be folded, to cut off part of the sheet for binding, the only difference being that in one case they are folded from the bottom and in the other from the side.

OFFICE PROCEDURE

It is desirable in all cases to have the report reviewed and criticized by some person other than the accountant who has written it.

When the several parts of the report have been typewritten they should be carefully compared with the rough draft. It has been found to be good practice to use the last carbon copy as an office copy on which to indicate corrections for the typist and the checking as to mathematical accuracy and otherwise. It is a good rule not to permit the typist to make corrections while all copies are in the machine as there is a possibility of failure to correct some of the copies. After comparing, every computation in the report should be checked on the office or "proving" copy. In some cases it is desirable to check computations such as percentages before typing, but unusual care should then be exercised in comparing.

Every figure appearing in comments, certificates, or footnotes to statements, which is not susceptible of verification by mathematical process, as well as all dates, should be checked

to authoritative sources - the statements or working papers. All references in one statement to another, such as the surplus at the end of the period and the totals of schedules, should be checked. In comparative statements, the prior figures, or comparisons therewith, should be checked to the preceding report if any. The contents of the report as to the number of pages of comments and the titles of statements, as shown in the presentation, should be checked. All corrections of typing should be checked, care being exercised to see that all copies have been corrected. In short, every possible precaution should be taken to insure accuracy of the report, as a clerical or typographical error may make a very bad impression upon the client.

Some accountants use red ink in ruling typewritten statements, horizontally and perpendicularly, and in underscoring the captions. In the opinion of the author, horizontal lines made by the typewriter, including underscores where necessary, present a better appearance, and no perpendicular lines are required.

Imprinting in red on the carbon copies, as well as on the original, may be done by inserting pieces of red carbon. It is desirable to type reference characters in red, as black characters, especially on the carbon copies, are not conspicuous.

The designation of the Exhibit, Schedule, or Statement should be typed on the outside of folded statements.

It is important to keep a record in the office showing the disposal of each copy of the report.