


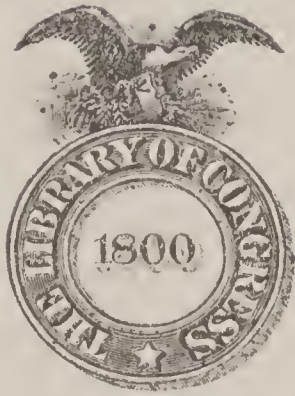
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**20<sup>th</sup> CENTURY  
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ACCOUNTING**

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# 20th Century Bank Accounting

A TREATISE ON MODERN BANKING AS ILLUSTRATED  
IN THE BUSINESS TRANSACTIONS WHICH  
ACCOMPANY THIS TEXT

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FIRST EDITION

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By OSBORNE GARBER

ASSISTED BY

TEACHERS, BANKERS AND ACCOUNTANTS

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PUBLISHED BY

SOUTH-WESTERN PUBLISHING Co.

CINCINNATI, O.

1921

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RECEIVED  
JUN 11 1921  
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JUN -4 1921



## P R E F A C E

One or more banks are essential to the success of any community. A knowledge of bank accounting on the part of each individual in the community is of mutual advantage to the bank and the community. The purpose of this text and the practice set which accompanies it is to provide a knowledge of bank accounting.

The discussion in the text is arranged in six divisions. The first division relates to the organization of a bank; the second, the business of a bank; the third, the internal organization; the fourth, the books of account; the fifth, the accounts; and the sixth, the Statement of Resources and Liabilities and the Statement of Profit and Loss. The practice set which accompanies the text contains a reproduction of the transactions which are performed by the bank, and correlates the discussion of the principles in the text and their practical application.

*First Division.* The discussion in this division relates to the purpose of a bank, the three classes of banks—private, state and national, the Federal Reserve Bank, function of the reserve system, savings banks, trust companies, Morris-Plan Banks, and Farm-Loan Banks. The purpose of this discussion is to give the student a knowledge of the different methods of organization in connection with commercial banks, and the distinction between commercial banks and those banks which serve a special purpose.

*Second Division.* The discussion in this division relates to the business of a bank, the business transactions performed by a bank, its profits, losses and operating cost, and the merchandise of a bank—cash and cash items, including the various forms of checks, bank drafts, money orders, notes, drafts, trade acceptances, certificates of deposit, bonds and other special forms of securities. The student needs this information if he is to understand the relation of these business forms to the work of the bank and the transactions performed by the various officers.

*Third Division.* The discussion in this division relates to the internal organization of a bank. It includes the work of the executives, tellers and bookkeepers in the various departments. The work of each department is described so that the student will understand the work performed in each department and be better qualified to record the transactions as they are presented to him in the practice set.

*Fourth Division.* The discussion in this division relates to the books of account in which the transactions of a bank are recorded. These include the various tellers' proof sheets, the general proof sheet, the registers used in recording bank drafts, certified checks, cashier's checks, certificates of deposit, loans and discounts, collections and remittances, the depositors ledger and the general ledger. The discussion is supported by illustrations so that the student may better understand their application to the work of the tellers and bookkeepers.

*Fifth Division.* The discussion in this division relates to the accounts necessary for recording the transactions of a bank. These include Cash, Loans and Discounts, United States Bonds, Other Bonds, Federal Reserve Bank Stock,

Other Stock, Correspondent Banks, Federal Reserve Bank, Redemption Fund, Banking House and Lot, Real Estate, Furniture and Fixtures, Depreciation, Capital Stock, Surplus, Undivided Profits, Dividend, Profit and Loss, Circulation, Time Deposits, Demand Deposits, Cashier's Checks, Certificates of Deposit, Certified Checks, Interest, Discount, Rediscount, Collection, Exchange, Safety Deposit Rent, Profit on Sale of Real Estate, Profit on Sale of Bonds, Operating Cost, and General Expenses. A knowledge of these accounts is necessary if the student is to understand the results to be obtained from bank bookkeeping.

*Sixth Division.* The discussion in this division relates to the Statement of Resources and Liabilities, the Statement of Profit and Loss, and the entries to close the profit and loss accounts at the end of the fiscal period. The statements are illustrated and explained so that the student may have a working knowledge of their application. The information in this division will assist the student in interpreting the financial condition of a bank from the statement of the business.

The student who has completed this banking set will understand banks and their relation to the community which they serve, the method of organizing banks, the transactions which they perform, the method of recording the transactions, and the method of preparing the statement of the business at the close of the fiscal period. This information will be invaluable to him as a citizen of the community, as a clerk in the bank, or as one of the officials of the bank.

THE PUBLISHERS.



## BANKS AND THEIR ORGANIZATION

§ 1. A **Bank** is a business organized for the purpose of making a profit by dealing in money and securities. Its principal profit results from the interest on money loaned and the purchase and sale of bonds and other securities. Banks are of great value to the community in which they are located because they provide a place for the safe-keeping of money and securities and make possible the "deposit and check" method of making payments, thus eliminating, to a great extent, the use of money as a medium of exchange.

While a bank is organized for profit, yet it does not create wealth; it is not an industry; it does not carry on production; it can not of itself supply wealth to the community. The bank is a receptacle, a reservoir for the floating, liquid wealth of the community. It is an agency for the more efficient use and handling of money, but not for making wealth by any magical means or by creating deposits through loans.

A bank may be conducted by an individual acting as a sole proprietor, or a group of individuals acting as a partnership or a corporation. The banking business in the United States is performed by private, state, and national banks. This distinction is based on the authority from which the bank obtains its right or privilege to do business.

§ 2 A **Private Bank** is one conducted by an individual acting as sole proprietor, or a group of individuals under a partnership agreement. A private bank is not incorporated and, except in a few states, its books are not subject to inspection by a representative of the state banking department. The credit of the individual or individuals who operate the bank is the only guarantee to its depositors that the funds on deposit will be handled in an honest and businesslike manner. Only a small part of the general banking business is conducted by private banks. They usually deal in securities, real estate, loans, and other special investments.

§ 3. A **State Bank** is a corporation organized for the purpose of engaging in the banking business; its charter is obtained from the state in which it does business. In order that the interests of its depositors may be properly safeguarded, the books are subject to inspection by the properly authorized state officials. This inspection may be made quarterly or more often, depending on the laws of the state in which the bank is organized. With the exception of restrictions which may be placed on it by laws governing the organization of banks in the state in which it is operated, the nature of the business in a state bank is the same as that in a private bank.

In some states, the deposits in state banks are guaranteed by the state. This guarantee is effected by taxing each bank a certain per cent of the business it does. The taxes collected form a fund with which to pay the depositors of a bankrupt bank. This plan encourages those who have surplus cash to deposit it in a bank because they know the amount deposited can be recovered from the state if the bank becomes bankrupt. However, it has no great attractions to the business man, because he has confidence in the officers of the bank with which he does business.

§ 4. A **National Bank** is a corporation organized for the purpose of engaging in the banking business. Its charter is obtained from the National Government through the Comptroller of Currency instead of the state in which it does business. One of the chief purposes of national banks is to relieve the demand for paper money. The policy of the United States Government is to issue no paper money unless the gold or silver in which it is payable is in the vaults of the Treasury. Were this policy carried out and the business public supplied with all the paper money necessary for the successful transaction of business, it would require a large amount of gold and silver to be kept on deposit. The Federal Government has outstanding obligations, these being represented by long-time notes, usually referred to as bonds. All property of the Federal Government, as well as the property of each individual, is subject to sale to pay these bonds; for this reason, they are regarded as the very best class of securities. National banks may issue paper money provided they deposit with the Comptroller of Currency registered United States bonds as security. Should a national bank fail to redeem the paper money which it has issued, the Comptroller of Currency will sell the bonds deposited as security and redeem it. Paper money has no value aside from the fact that the Federal Government guarantees its payment. Since the Federal Government carries sufficient gold and silver in the Treasury to pay gold and silver certificates, and it guarantees the paper money issued by national banks, all paper money is accepted by the public without question.

Before the organization of national banks, state banks, by the authority of the state in which they did business, were permitted to issue paper money payable by the bank issuing it. A tax of ten per cent, levied by the Federal Government on state bank currency, has caused this class of currency to be withdrawn from circulation.

In order to afford the best protection to depositors of a national bank, a number of conditions are imposed in the charter granted by the Comptroller of Currency. The more important of these are as follows: the books are subject to a rigid examination by a national bank examiner at such time as he may wish to examine them; the funds of the bank can not be loaned for a longer period than four months; loans can not be made with real estate as security; a limitation is placed on the amount of the loan to a stockholder of the bank; the Comptroller can require a statement of the bank's business at the close of any business day; registered United States bonds must be deposited to guarantee paper money issued by the bank; each bank must invest at least six per cent of its capital and surplus in stock of the Federal Reserve Bank; a redemption fund of five per cent must be maintained with the Comptroller of Currency to redeem mutilated paper money; a certain per cent of the deposits must be kept in the vault of the bank in cash. These and many other conditions, both in regard to the organization and the operation of the bank, to a certain extent, offset the many advantages offered to national banks.

One of the chief functions of the Federal or State Government is to protect the financial interests of its citizens. For this reason, very stringent laws are made governing the operation of banks. This is necessary because of the confidential nature of the transactions with a bank. The more confidence the public has in the banks which serve it, the better it will be for all concerned, because money hidden away decreases the volume of circulation in the community. Money deposited in a bank can be used by the officials of the bank in the interest of business for the community, hence will result to the good of all.

§ 5. A **Federal Reserve Bank** is one authorized by the "Federal Reserve Act," enacted by Congress in 1913. The purpose of this act is to provide additional means for the issuing of paper money and to give the banks in each sec-



tion of the country better control of the money needed for the transaction of business in that section. This act is additional evidence that the Federal Government wishes to protect the interest of each individual. Twelve reserve banks have been established, each bank controlling the banking business in a designated district. The location of each bank and the district which it serves are given in Illustration No. 1 on page 8.

The following is a synopsis of the Federal Reserve Act:

1. The Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of Currency were authorized, as the Reserve Bank Committee, to locate the banks and designate the territory which each was to serve. The map in Illustration No. 1 shows the result of the work of this committee. These districts may be readjusted by the Federal Reserve Board which was created by the Act.

2. The Federal Reserve Bank is a corporation receiving its charter from the Comptroller of Currency. The par value of each share of stock is \$100.00. The stock in each Federal reserve bank is subscribed for by the national banks in the territory which it serves, each bank being required to subscribe for stock equal to six per cent of its paid-up capital stock and surplus. State banks also have the privilege of subscribing for stock after complying with the conditions outlined in the Act. The Secretary of the Treasury may subscribe for stock providing sufficient capital is not provided by the subscriptions from national and state banks. The stock may also be offered for sale to the public at the discretion of the Secretary of the Treasury.

3. The operations of each Federal reserve bank are controlled by a Board of Directors composed of three classes, known as Class A, Class B and Class C. Class A shall consist of three members who shall be chosen by, and be representative of, the stockholding banks. Class B shall consist of three members who, at the time of their election, must be engaged in their district in commerce, agriculture, or some other industrial pursuit. Class C shall consist of three members who shall be designated by the Federal Reserve Board. No senator or representative in Congress shall be a member of the Federal Reserve Board, or an officer or a director of a Federal reserve bank. No director in Class B shall be an officer, director or employee of any bank. No director in Class C shall be an officer, director, employee, or stockholder of any bank. The directors in Classes A and B shall be chosen by election in the same manner as directors are chosen in other corporations.

Each Federal reserve bank shall establish branch banks within the district in which it is located. These branch banks shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board.

5. The capital stock of each Federal reserve bank shall be six per cent of the paid-up capital stock and surplus of all member banks, but can not be less than four million dollars. When a member bank increases its capital stock or surplus it must increase its subscription for Federal Reserve stock accordingly. Thus, if a member bank whose capital stock is \$100,000.00 increases it to \$200,000.00, this member bank would have to subscribe for an additional \$6,000.00 of stock in the reserve bank. If a member bank reduces its capital stock or surplus, it must surrender stock in the Federal reserve bank in proportion to the reduction, and receive cash for the same. Shares of the capital stock of the Federal reserve banks owned by member banks can not be transferred or hypothecated.

*(Continued on page 9)*

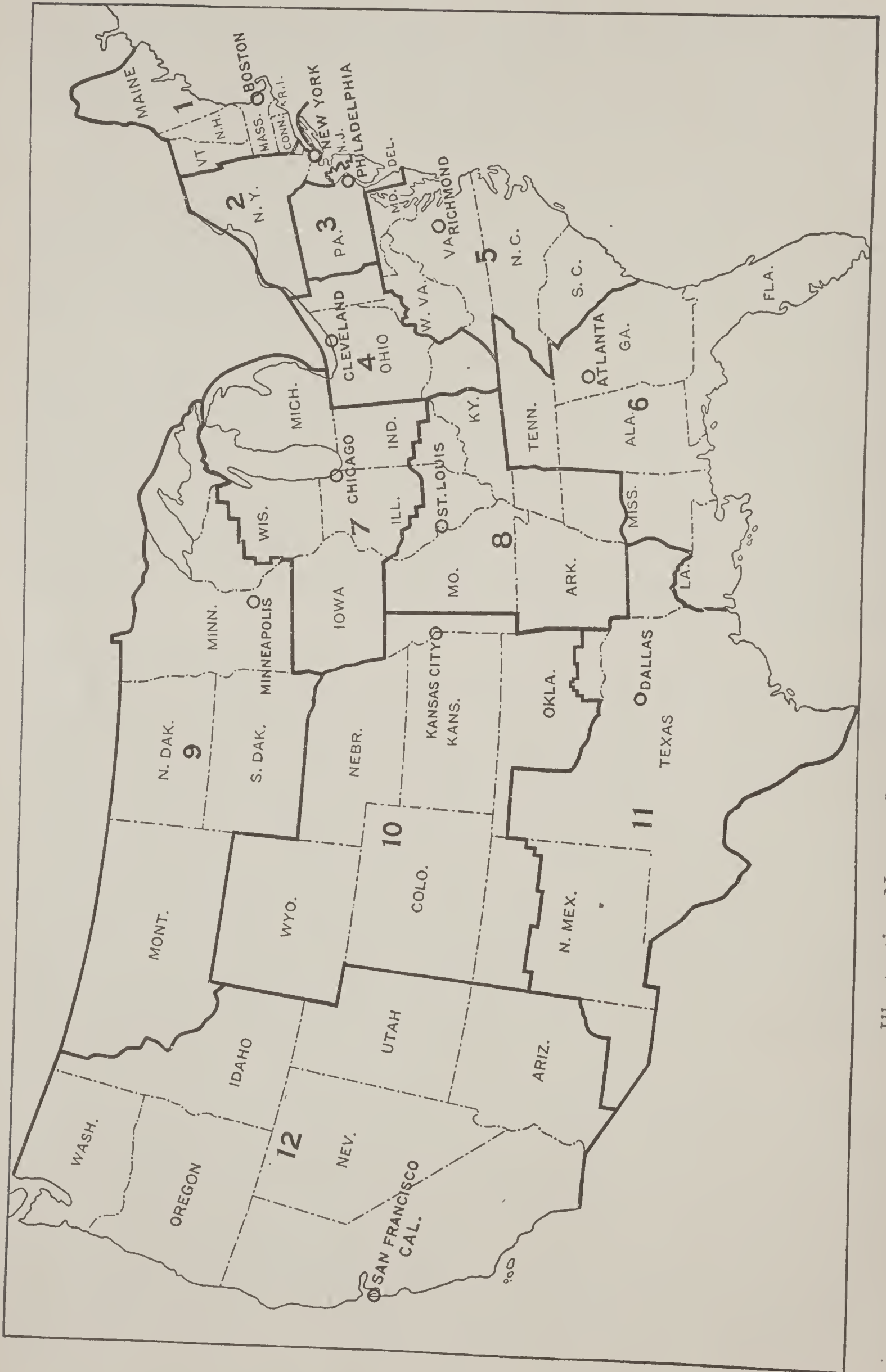


Illustration No. 1. Map of Federal Reserve Bank Territory.



*(Continued from page 7)*

6. Section Seven of the Federal Reserve Act specifies the following divisions of the net earnings of the reserve banks:

“After all necessary expenses have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.”

7. The Federal Reserve Board consists of seven members including the Secretary of the Treasury, the Comptroller of Currency, and five members appointed by the President of the United States and approved by the Senate. These five members who are appointed by the President must reside in different reserve bank districts and be men of wide business experience. The salary of each of these five officers is \$12,000.00 per year, and the Comptroller of Currency is allowed \$7,000.00 per year for the extra duties on account of his connection with the Federal Reserve Board. These salaries and all other expenses of the Federal Reserve Board are paid by the reserve banks in proportion to the capital of each. The term of office of each of the five members is ten years. The members of this board are ineligible during the time they are in office and for two years thereafter to hold any official position or employment in any member bank.

8. The Federal Reserve Board is authorized to examine the accounts, books and affairs of each Federal reserve bank; to require Federal reserve banks to rediscount paper of other Federal reserve banks; to suspend the reserve requirements provided in the Federal Reserve Act; to supervise and regulate the issuance and retirement of Federal Reserve notes; to add to the number of cities in the Federal Reserve class; to suspend any officer or director of a reserve bank; to require the writing off of doubtful or worthless assets on the books of a reserve bank; to require bonds of the Federal reserve agents for the safeguarding of collateral; and to have general supervision over all Federal reserve banks.

9. Federal reserve banks may do a general banking business with member banks, but not with the public. They accept money on deposit from the United States Government and from member banks. They discount notes, drafts, trade acceptances, and bills of exchange. They issue currency to member banks upon receipt of Government bonds or commercial paper as collateral. They discount acceptances which are based on the importation, exportation or domestic shipment of goods, and which have a maturity at time of discount of not more than three months.

10. The paper currency issued by the Federal reserve banks is known as “Federal Reserve notes.” It is made payable by the Federal reserve bank which issues it, and is secured by United States bonds or commercial paper; its payment is guaranteed by the Federal Government. Federal reserve banks having circulating notes secured other than by United States certificates “shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per



annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes."

A surplus quantity of money may be needed in a particular district for a specific purpose, but, when this has been taken care of, the money will come back into the reserve bank in the territory because of the interest which the member banks must pay for its use.

**§ 6. Function of the Reserve System.** No bank can stand alone on its own resources any more than one individual can be entirely independent of others. If there are three banks which serve a given community and the depositors of one bank undertake to withdraw all their funds, this would not only exhaust the funds of the one bank, but would also affect the business of the other banks. If the three banks are organized to help one another and there is a tendency on the part of the depositors of one bank to withdraw their funds, the other banks can come to its assistance and thus avoid financial disaster for the three banks.

The purpose of the reserve system is to form a more complete organization of the banks throughout the United States and thus permit them to work in accord. Bad crops in one community result in trouble for the bank which serves that community. Through the Federal reserve system, these banks can borrow from the reserve bank or other member banks in their reserve district, and thus avoid the necessity of forcing collection of notes given by their customers. In this way the business of the community may be best served because when it is necessary to make forced collection, someone must sell at a sacrifice.

The reserve system works to the benefit of the farmer, the merchant, the manufacturer, and every line of industry in the country. If a farmer in Minnesota has one thousand bushels of wheat for sale, but does not wish to place the wheat on the market on account of the low price, he will store it in an elevator, take a receipt and, using this receipt as collateral security, borrow money from his bank. If his bank is short of funds, it can rediscount this note with the nearest branch of the Federal Reserve Bank. If this branch is short of funds, it can rediscount with the reserve bank in Minneapolis. If the Minneapolis reserve bank desires to do so, it can rediscount with the reserve bank in Chicago, St. Louis, New York, or some other district. The same illustration will apply to the products of the farmer in all sections of the United States.

The merchant or manufacturer can have each sale on account settled by trade acceptance, and discount this with his local bank in the same manner as the farmer discounts his note secured by the warehouse receipt as collateral security. The local bank which rediscounts a farmer's note secured by collateral, or the merchant's trade acceptance, will not make as great a profit, but it will make some profit because the Federal Reserve Board provides a low rate of interest on rediscounts.

The reserve system is not intended to encourage speculation, hence rediscounts are not permitted where money is borrowed for speculative purposes. When there is a disposition on the part of the public to speculate too extensively, the Federal Reserve Board discourages this by increasing the rate of discount to such an extent that speculation will not prove profitable. It can also curtail speculation by refusing to renew paper that has been rediscounted with reserve banks.

The reserve bank system serves as a protection against panics in the same way that a reservoir of water serves as a better protection against fire than a cistern in each house. The reserve banks do for the member banks what each of the member banks do for the community in which each is located. The reserve banks do not create new wealth. They may accept property which is

not in the form of currency as collateral for currency, but sooner or later this currency will go back into the bank and the collateral will be returned to its owner.

§ 7. **A Savings Bank** accepts small amounts from depositors who wish to save a part of their earnings. The depositor in a savings bank may withdraw a part or all of his balance upon demand, but it is not subject to check. Interest is allowed on the average monthly balance and credited to the depositor's account annually or semi-annually. The bank reserves the right to demand thirty or sixty days' notice for withdrawals for its own protection in case all depositors should wish to withdraw their funds at one time.

A savings bank may be operated as a private or state organization. Some state banks have a clause in their charters allowing them to do a general banking business and to conduct a savings department. National banks are permitted to conduct a savings department under regulations issued by the Comptroller of Currency.

§ 8. **A Trust Company** is a corporation organized for the purpose of acting as agent in the same capacity as an individual. Some state banks have a clause in their charter permitting them to conduct a trust department in addition to a general banking business. As agent, the trust company or trust department acts as executor of estates, represents the owner of real or personal property, makes leases, collects rents, makes investments, collects coupons, acts as receiver for a bankrupt corporation, trustee for a mortgage given as security for bonds, holding company for a combination of corporations, etc.

Trust companies are subject to the laws of the state in which they do business. These laws are constructed with a view to protecting the interests of those who wish the trust company to act as agent. A "guaranty and trust" company prepares abstracts of titles to real estate and guarantees the title to the purchaser.

§ 9. **A Morris-Plan Bank** is a corporation organized to make loans to those who wish to borrow small amounts and do not have the security which will enable them to borrow from a state or national bank. A Morris-Plan bank does not do a general banking business, but its purpose is to make it possible for the honest employee to borrow needed funds at a reasonable rate of interest without having to place personal property in pawn or as collateral security through a chattel mortgage. The Morris-Plan banks are proving very popular in the industrial centers and are doing much to eliminate unscrupulous loan sharks.

§ 10. **Farm-Loan Banks** are a special class of banks, provided by an Act of Congress to make it possible for the farmer to borrow funds for the purpose of purchasing a farm or farm equipment. The establishment of these banks is another instance of the Government's interest in the welfare of the people. The Federal Reserve Bank, with its system of member banks, provides ample banking facilities for the operations of business, but does not provide for the farmer who wishes to borrow on longer terms of credit.

Commercial banks accept deposits, discount commercial paper, buy and sell bonds, collect commercial paper, and perform the usual banking transactions. Trust companies, guaranty companies, Morris-Plan banks and Farm-Loan banks are organized for a special purpose and do not conduct a general banking business; they make long-time loans, loans under special conditions, and otherwise serve the community in a banking capacity that is outside that of a commercial bank.



**Summary.** The foregoing discussion is given so that the student may know something of the banking system in effect in the United States. No attempt has been made to go into the details of the operations of the various classes of banks. Full information in regard to the banking laws in each state can be obtained from the Secretary of State at the state capital. Copies of the National Banking Act, the Federal Reserve Act, and the Farm-Loan Bank Act, can be obtained from the Superintendent of Documents, Government Printing Office, Washington, D. C.

## THE BUSINESS OF A BANK

§ 11. **The Business Transactions** performed by a bank differ from those performed in other lines of business in that cash is received or paid in each transaction. The term "cash," as used in connection with bank transactions, includes money and checks, sometimes referred to as "cash" and "cash items." Cash items are accepted as cash, but with the understanding that the one from whom they are accepted guarantees payment on presentation.

§ 12. **The Profits of a Bank** consist of the interest collected for the use of its money loaned; the fees charged for collecting notes, drafts and checks; profit from the sale of stocks and bonds; rent, or profit from the sale of real estate; fees for services rendered as trustee, executor, administrator, etc.; rent of safety deposit boxes and storage space; and exchange fees received from the sale of bank drafts, letters of credit, and bills of exchange. There may be other profits, but the foregoing serve to illustrate the method by which the bank obtains its income.

§ 13. **The Losses of a Bank** are as follows: interest paid depositors for the use of their money; interest paid to reserve banks or other banks for rediscounting paper; collection fees charged by other banks; losses from the sale of stocks and bonds; losses on real estate; and losses on notes, drafts or other obligations which can not be collected. There may be other losses, but the foregoing serve to illustrate some of the losses which may result in connection with the operations of a bank.

§ 14. **The Operating Cost of a Bank** consists of the salaries of the executives and employees; rent, or interest on the investment if the bank owns its own home; stationery; advertising; taxes; depreciation, etc. The operating cost of a bank does not differ materially from that of any other business.

§ 15. **The Merchandise of a Bank** consists of cash and securities. Cash, from the viewpoint of the banker, may be divided into two classes: cash and cash items. Cash consists of the various kinds of paper money (issued by the United States Government, national banks, and reserve banks), gold, silver, nickel and copper coins. Cash items consist of checks, bank drafts, express and post-office money orders, and other business forms used in the place of money. Securities consist of notes, accepted drafts, trade acceptances, stocks, bonds, and other business forms which are evidences of indebtedness or value.

§ 16. **A Check** is a written order by a depositor on his bank designating to whom he wishes the bank to pay a part or all of the cash which he has on deposit. Blank checks bound in a book are provided by the bank. Each check has a stub so that the depositor may keep a record of it and his account with the bank. The depositor should use the blanks provided by the bank because their use greatly facilitates the clerical work of the bank in connection with keeping his account. (See Illustration No. 2.)

§ 17. **A Certified Check.** A check indicates that the depositor has cash in the bank, but it is not evidence of this fact. A certified check indicates that the depositor had the amount on deposit at the time the check was written and that the bank has taken the amount out of his account and is holding it for payment of the check on presentation. A check is certified by an authorized official writing or stamping across the face "Certified," the amount, the name of



the bank and the name of the official authorized to certify. A check tendered in payment of a note at a bank other than the bank on which the check is payable should be certified; a check given as a guarantee of good faith in the performance of a contract should be certified; a check offered as a deposit when opening a new account with a bank should be certified; there are many other reasons why a check should be certified, but these three are sufficient to illustrate the purpose. Many banks issue a cashier's check in exchange for the customer's check in preference to certification.

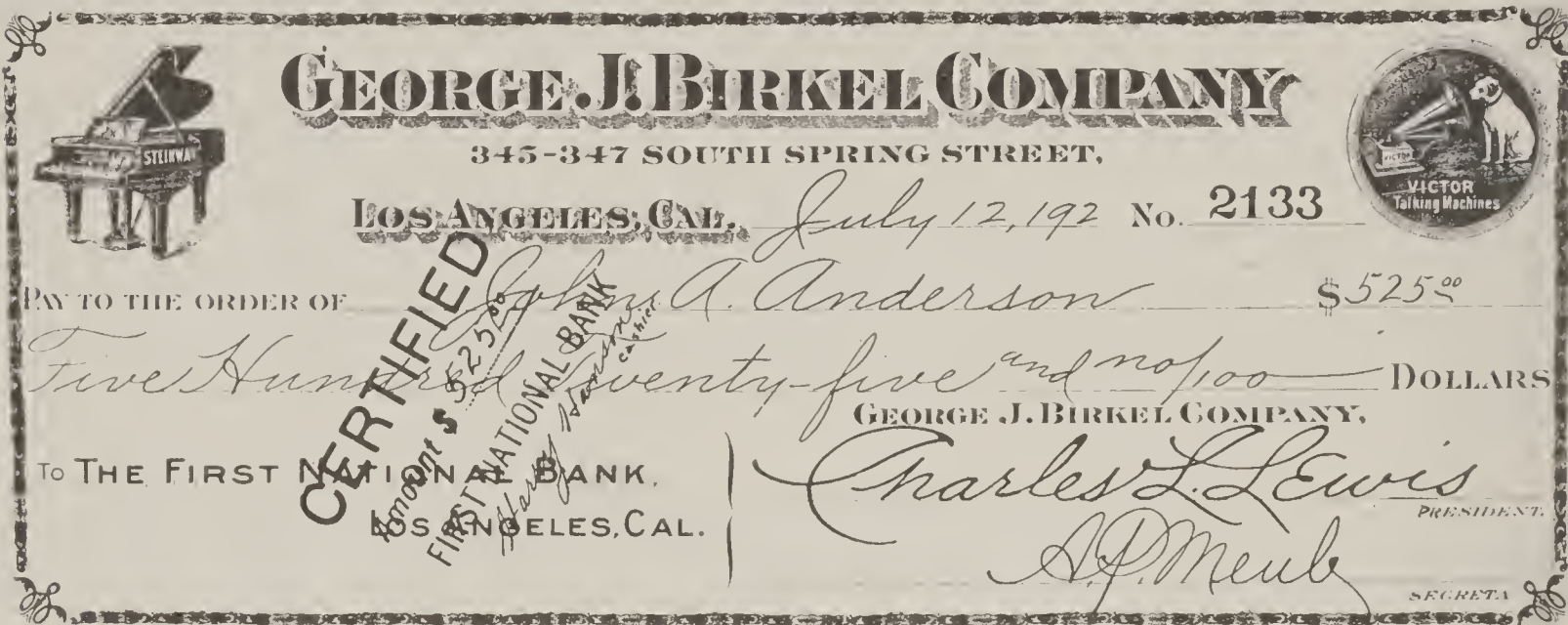


Illustration No. 2. Certified Check

EXPLANATION: The illustration indicates that George J. Birkel Co. is a depositor of the First National Bank of Los Angeles, California, and wishes this bank to pay to John A. Anderson \$525.00. For some reason the George J. Birkel Co. wants Mr. Anderson to know that the check will be paid when presented. The statement made by the bank guarantees payment upon presentation, because the bank has taken the amount of the check out of the funds deposited by the maker of the check and has it available for payment when the check is presented. This form serves to illustrate the check defined in §16 as well as the certified check.

§ 18. A Cashier's Check is a check drawn on a bank by its cashier. It is used in the payment of the operating expenses of the bank, in payment of  
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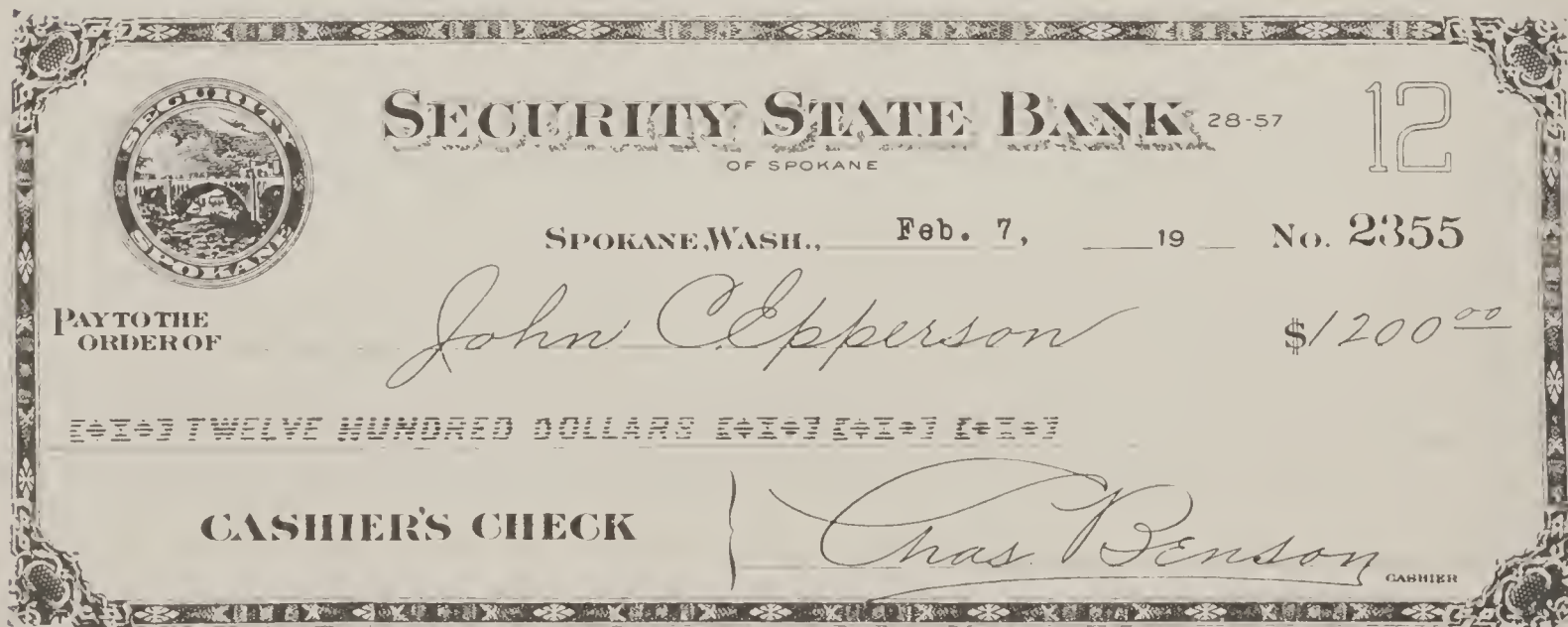


Illustration No. 2a. Cashier's Check

EXPLANATION: The illustration indicates that Charles Benson, cashier of the Security State Bank of Spokane, wishes to pay an obligation of \$1,200.00 to John C. Epperson. The \$1,200.00 mentioned in this check will be paid to Mr. Epperson or his order on presentation to the one who is authorized to pay funds belonging to the bank.



the proceeds of notes, drafts or other business papers collected, in payment of the proceeds of notes discounted, and in payment of other obligations of the bank. Cashier's checks are sold to those who wish to use them as a means of sending cash through the mail in the same manner as a bank draft or money order.

§ 19. **Exchange** is a check drawn by one bank against funds deposited with another bank; such checks are also referred to as "bank drafts." Exchange is usually designated by the name of the city in which the paying bank is located. Thus, a check drawn on a bank in New Orleans is known as New Orleans Exchange; one drawn on a bank in New York, as New York Exchange; one drawn on a bank in Chicago, as Chicago Exchange. Exchange is used extensively in the payment of obligations maturing in the larger cities where a collection charge is made on out-of-town checks. B, a merchant in Cincinnati, owes A, a merchant in New York. Instead of sending A his personal check, B will take his personal check to his bank and exchange it for a check payable by a New York bank. When A receives this check, he can deposit it with his bank without paying collection charges. Banks usually charge a small fee for issuing exchange.

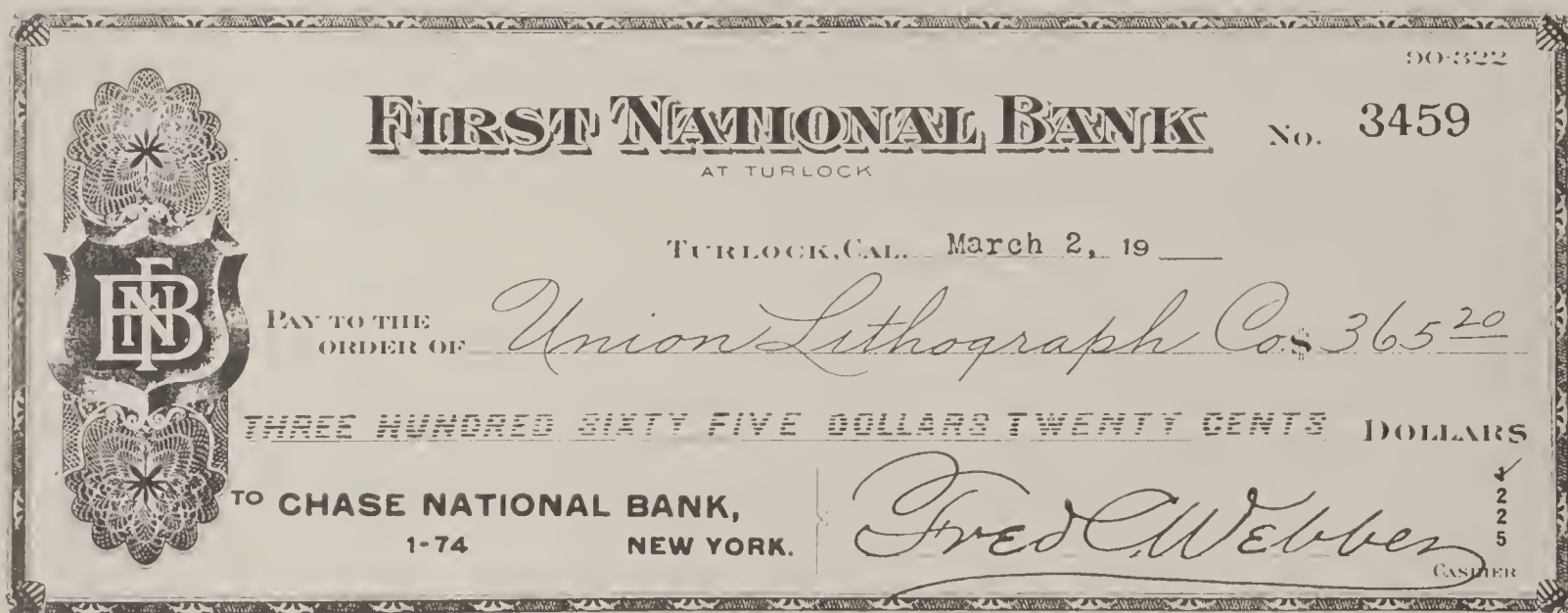


Illustration No. 3. New York Exchange.

**EXPLANATION:** The illustration indicates that Fred C. Webber, cashier of the First National Bank of Turlock, California, has instructed the Chase National Bank of New York City, N. Y., to pay to the order of the Union Lithograph Co., \$365.20 from funds which it has on deposit. This draft indicates that a depositor of the First National Bank has exchanged his check with the bank for the bank's check payable in New York City.

§ 20. **An American Bankers Association ("A. B. A.") Check** is a check drawn by a bank on the Bankers Trust Company of New York, N. Y. These checks are issued in denominations of \$10.00, \$20.00, \$50.00 and \$100.00, and are used quite extensively in the United States and foreign countries by travelers who do not like to carry large sums of money. A small fee is charged for each traveler's check issued. When A. B. A. checks are received by the bank, either from a depositor or from some other source, they are sent to the New York correspondent bank for collection and credit. The New York bank will present them to the Bankers Trust Company for payment.

§ 21 **A Post-Office Money Order** is a written order authorizing a postmaster to pay the amount mentioned therein on presentation; the paying postmaster will require proper endorsement and identification. A post-office



money order is obtained by depositing with a postmaster the amount for which the money order is to be issued; a small fee is charged for issuing the money order. Post-office money orders are used for sending money by mail. Banks accept post-office money orders for deposit the same as any other cash item. Where there are a number of banks in the same city, it is customary to collect all post-office money orders through the clearing house. This avoids the necessity of each bank having to send a messenger to the post office to make collection.

§ 22. **An Express Money Order** is a special form of check issued by the American Express Company for remitting money. It is made payable to the holder and can be cashed by him on presentation of an identification card or other means of identification. Express money orders are issued in competition to post-office money orders. They are handled by the banks in the same manner as post-office money orders.

§ 23. **A Note** is a written promise to pay cash on demand or at a designated time. The note is signed by the one who is to pay it and is made payable to the one to whom it is to be paid. An individual, partnership, or corporation can issue and receive notes. If a definite date of payment is mentioned, it is known as a time note; if payable on demand, a demand note. A joint note is one signed by two or more persons. Notes are evidences of indebtedness and may be purchased and sold in the same manner as merchandise or other property. Banks receive notes as evidence of money loaned and for collection.

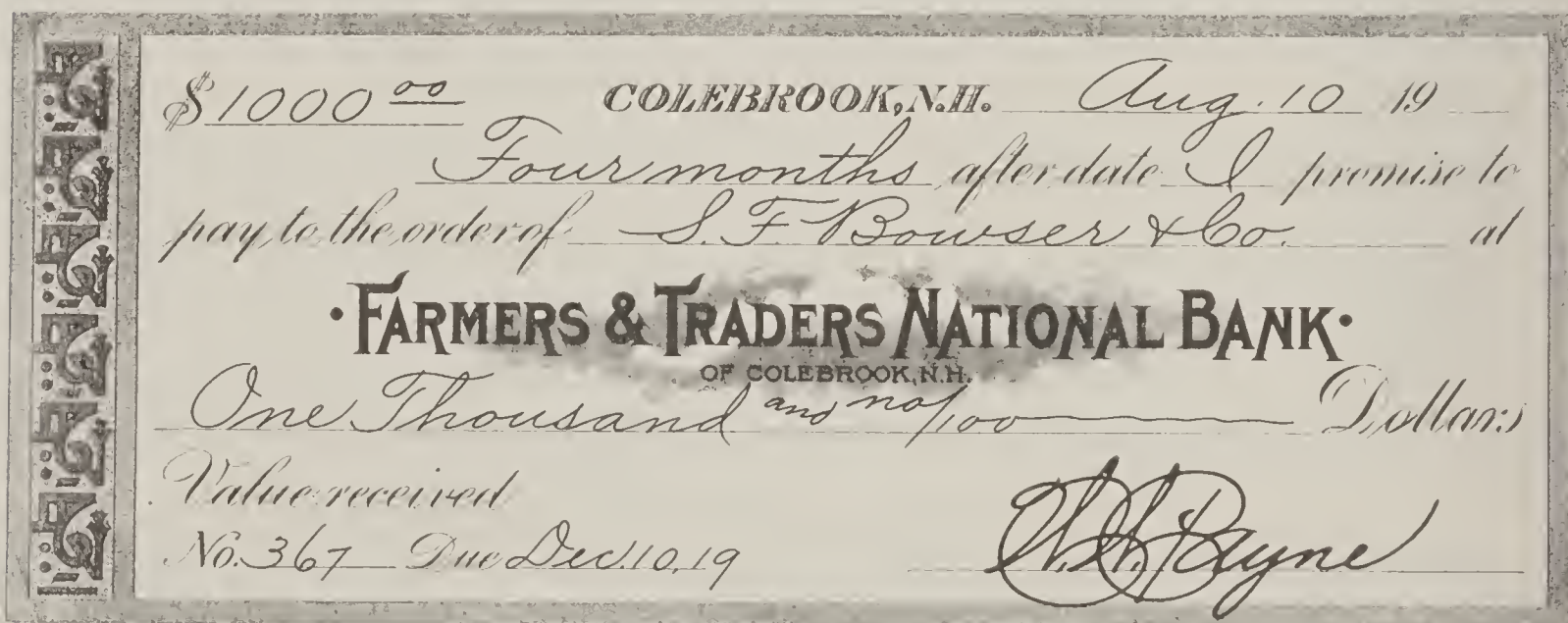



Illustration No. 4. Promissory Note.

**EXPLANATION:** The note illustrated indicates that W. W. Payne is indebted to S. F. Bowser & Co. for \$1,000.00. On August 10 he agreed to pay this amount within four months, collection to be made by the Farmers & Traders National Bank of Colebrook, N. H. The fact that this note authorizes payment at a designated bank does not mean that it can not be presented for collection by the payee at some other bank.

§ 24. **A Draft** is a written order to pay a stated amount of cash to a designated party on demand or at a specified time. It indicates that the one directed to pay the cash is indebted to the one who directs the payment. The draft may be made payable to the order of the one who directs the payment or to a third party. If the draft is payable on demand or at sight, it is usually referred to as a "sight draft;" if it is payable a designated number of days after presentation, it is known as a "time draft." Drafts serve as an excellent collection medium where the debtor and creditor live in different localities. Drafts are received by banks in the same manner as notes.

CUSTOMER'S DRAFT



**EXCHANGE BANK** 80-410

No. 467 10

SAVANNAH, Mo. June 12 19\_\_

At sight PAY TO THE ORDER OF

Second National Bank \$ 250<sup>00</sup>

Two Hundred Fifty and no/100 DOLLARS

FOR VALUE RECEIVED AND CHARGE TO ACCOUNT OF WITH EXCHANGE

To James S. Mullen & Son } Fred J. Armstrong  
1421 North Hope St., Chicago, Ill.

Illustration No. 5. Sight Draft.

EXPLANATION: The draft illustrated indicates that James S. Mullen & Son, Chicago, Ill., are indebted to Fred J. Armstrong, Savannah, Mo., for an amount equal to or in excess of \$250.00, and that Armstrong wishes James S. Mullen & Son to pay the \$250.00 to the Second National Bank when the bank presents the draft.

A time draft is in the same form except a certain time is stated in place of "At sight," and when the draft is presented, if it is accepted, the drawee writes "Accepted," together with his name and the date, across the face of the draft. The name of the bank at which it is payable may also be indicated if desired. If, in this illustration, the time had been thirty days instead of sight, the draft would have read, "At thirty days sight" instead of "At sight," and when presented, if accepted, it would have written across the face, "Accepted," the date, and "James S. Mullen & Son."

§ 25. A Trade Acceptance is a time draft drawn by the seller of merchandise or other property on the buyer of the same, and accepted by the buyer at the time the sale is completed or within a few days thereafter. The principles involved are the same as those in connection with a time draft, except the draft is accepted at the expiration of the term of credit while the trade acceptance is accepted at the time of the sale. Trade acceptances have been given

(Continued on page 18)

**TRADE ACCEPTANCE**

No. 862 Fort Wayne, Ind., April 15, 19\_\_

To John K. Renshaw, 1916 E. 77th St. St. Louis, Mo.

On June 14 Pay to the order of Ourselves  
(DATE OF MATURITY)

Six Hundred Twenty and 20/100 Dollars, (\$ 620.20)

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer. The drawee may accept this bill payable at any bank, banker or trust company in the United States which he may designate.

Accepted at St. Louis on April 10, 19\_\_

Payable at Fourth Natl Bank } Johnson, Carvel & Murphy

John K. Renshaw }  
(SIGNATURE OF ACCEPTOR)

By G. M. Johnson

Illustration No. 5a. Trade Acceptance

EXPLANATION: This illustration shows the trade acceptance resulting from a sale of merchandise by Johnson, Carvel & Murphy to John K. Renshaw. Since it is accepted, it is evidence of the obligation and may be used as collateral security, or sold.



preference by the Federal Reserve Board and are the one class of commercial paper which the holder can discount at a Federal reserve bank if a member bank refuses to discount them. Trade acceptances are accepted by banks as evidences of loans in the same manner as notes and time drafts; they are also accepted for collection.

§ 26. A **Certificate of Deposit** is a receipt issued by a bank for cash which has been deposited with it. This is subject to withdrawal on demand or at the time stated in the certificate, on surrender of the certificate properly endorsed. It usually bears interest, and is not subject to check.

CERTIFICATE OF DEPOSIT	
<b>FARMERS STATE BANK</b> 76-1112 <span style="float: right;">10</span>	
ERICSON, NEBR. <i>Mar 1</i> , 19 <i>19</i> No. <b>9560</b>	
THIS CERTIFIES THAT <i>A. M. Reilly</i> HAS DEPOSITED IN THIS BANK	
<i>One Thousand and no/100</i> \$ <b>1000<sup>00</sup></b>	
PAYABLE TO THE ORDER OF <i>J. R. Baker</i>	
ON THE RETURN OF THIS CERTIFICATE PROPERLY ENDORSED. <i>6</i> MONTHS AFTER DATE	
WITH INTEREST AT THE RATE OF <i>4</i> PER CENT PER ANNUM	
NO INTEREST AFTER MATURITY.	
<i>James F. Epley</i> CASHIER	
NOT SUBJECT TO CHECK	

Illustration No. 6. Certificate of Deposit.

EXPLANATION: The certificate illustrated indicates that A. M. Reilly has deposited \$1,000. with the Farmers State Bank of Ericson, Nebr., payable to the order of J. R. Baker, receipt for which is acknowledged by James F. Epley, Cashier. If J. R. Baker does not demand this money before six months from March 1, at the expiration of that time he will receive \$1,020.00, which is the amount deposited and 4% interest. J. R. Baker may withdraw the money at any time upon presentation of the certificate, but can not collect interest unless the amount remains on deposit for six months or longer.

§ 27. A **Foreign Bill of Exchange** is exchange payable outside the country in which it is drawn. It is usually issued in duplicate, the first or original of which reads "Pay this first of exchange, the second being unpaid;" and the duplicate, "Pay this second of exchange, the first being unpaid." They are mailed by different routes so that one will be sure to reach the destination. The bill presented first for acceptance or payment is recognized, and its acceptance or payment cancels the contracted indebtedness. Foreign bills of exchange are discounted by the bank whether payable on demand or at a designated time.

§ 28. A **Certificate of Stock** is a printed form issued by a corporation to a stockholder as a receipt for property invested. It shows the date of issue, number of shares, and in some cases the par value of the stock. The certificate is signed by the legally authorized officers, usually the President and Secretary. It is not considered the best policy for a bank to buy and sell certificates of stock, but they are often accepted as collateral security for loans.

§ 29. A **Bond** is a long-time note arranged in a special form. Bonds are usually issued in denominations of \$100.00, \$500.00 or \$1,000.00, usually secured by mortgage on real or personal property. The mortgage is held in trust by a trust company. If the interest or bonds are not paid as per agreement, the trust company will sell the property described in the mortgage and pay the indebtedness. Bonds issued by the United States Government, the state governments, counties and municipalities, are secured by all the real or



personal property owned by the citizens in the designated territory. Many banks have a bond department in which they buy and sell bonds. The large issues of Liberty and Victory Bonds during the World War have made this a profitable department. Banks also accept bonds as collateral security.

檀山正埠華美銀行

Exchange for  
\$20,000<sup>00</sup>  
UNITED STATES GOLD

**CHINESE-AMERICAN BANK, LTD.**  
 Honolulu, T.H. May 3, 19 No. 20303

At sight of this **SECOND**  
 of Exchange (First of the same tenor and date unpaid)

Pay to the order of A. B. Sheron  
Twenty Thousand and no/100 Dollars  
UNITED STATES GOLD

To Canton Bank, }  
 11-72 San Francisco, Cal. }

R. Ward  
CASHIER

Illustration No. 7. Foreign Exchange.

EXPLANATION: The draft illustrated indicates that the Canton Bank in San Francisco owes the Chinese-American Bank in Honolulu an amount equal to or in excess of \$20,000.00, and that \$20,000.00 is to be paid to A. B. Sheron upon presentation. This draft was drawn in Honolulu and two copies mailed to A. B. Sheron. The one illustrated is No. 2 of the series. Upon presentation to the Canton Bank, with the proper endorsement and identification, A. B. Sheron can collect the amount mentioned in it.

INCORPORATED UNDER THE LAWS OF THE STATE OF COLORADO

No. 217

1000 Shares

**THE AUGUSTA METAL MINING COMPANY**



CAPITAL STOCK \$2,000,000  
 2,000,000 SHARES \$1<sup>00</sup> EACH

**THIS IS TO CERTIFY** that J. Krehbiel is the owner of  
one thousand Shares of the Capital Stock of  
**THE AUGUSTA METAL MINING COMPANY,**  
*full paid and non assessable, transferable only on the Books of the  
 Company on surrender of this Certificate properly endorsed.*

In Witness Whereof, the President and Secretary have hereunto subscribed  
 their names and caused its corporate Seal to be hereto affixed at Cameron, Colo.  
 this 16 day of May A.D. 1902

(SEAL)

J. Hurall  
Secretary

C. L. Arzno  
President

SEEKERS 1140 TO OTHERS 1140

Illustration No. 8. Certificate of Stock.



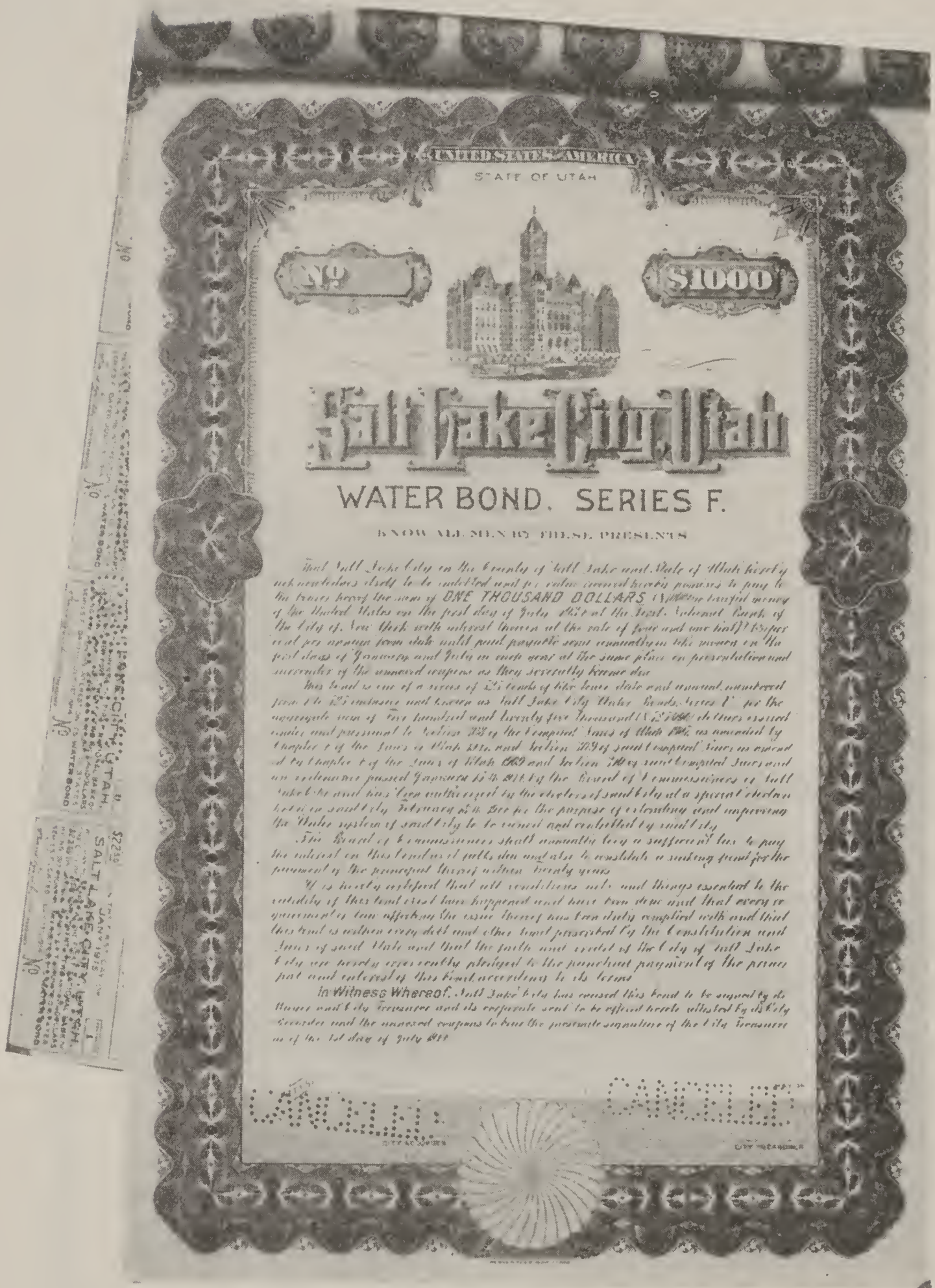


Illustration No. 9. Bond

§ 30. Many Other Special Forms, given as evidences of indebtedness or ownership, are handled by the banks. Those in most general use are discussed here so that the student may know something of the cash, cash items and securities involved in connection with bank transactions. A sufficient number are illustrated so that the student may visualize the definitions.



## THE INTERNAL ORGANIZATION OF A BANK

§ 31. **In General.** A bank is a business organized for profit. If its operations are to be successful it must have sufficient capital and an experienced and well-balanced organization. This organization may be divided into three divisions: executives, tellers, and bookkeepers.

§ 32. **Executives.** The affairs of an incorporated bank (state or national) are controlled by a board of directors elected by the stockholders in the same manner as any other corporation. Each stockholder is entitled to one vote for each share of stock he owns. The board of directors elect from their number the president, one or more vice-presidents, the cashier, and one or more assistant cashiers. These officers constitute the executive force of the bank and are responsible to the board of directors for its operation. The duties of each officer will depend largely upon the regulations of the board of directors and the by-laws.

§ 33. **Tellers.** The routine business of the bank is performed by the tellers, who are appointed by an executive officer of the bank. The number of tellers required will depend upon the volume of business transacted. Where only one teller is needed, his duty will be to accept cash from those who wish to deposit it in the bank; pay cash on checks which are presented for payment; accept notes, drafts, and trade acceptances from those who wish to leave them for collection; give credit for loans which have been approved by the cashier or president and board of directors; issue exchange on other banks; receive cash in payment for loans which are due; pay cash to those whose paper has been collected by the bank; and perform other duties which are not performed by the cashier and president. Where a number of tellers are needed to take care of the business, the "receiving teller" receives deposits; the "paying teller" pays cash on checks presented for payment; the "note teller" receives notes left for collection, and for discount after the approval of an executive officer and the board of directors; the "exchange teller" issues exchange on other banks. The duties of the tellers are discussed more in detail in the discussion of the various departments.

§ 34. **Bookkeeper.** The bookkeeper records the transactions which are completed by the tellers and the executive officers of the bank. If only one bookkeeper is required, he would record the transactions with depositors, the loans made and collected, the notes received for collection and those collected, the cashier's checks issued by the cashier, the exchange issued on other banks, transactions with other banks in connection with the collection of checks and other commercial paper, the purchase and sale of bonds and real estate, and the operating expenses. If more than one bookkeeper is needed, the work in the bookkeeping department would be so arranged that each could take care of some particular class of transactions—one, the depositors; one the loans; one, the collections; etc.

§ 35. **Departments.** Where the volume of business is large, it is necessary to divide the work of the various officers, tellers and clerks into departments. The number of departments will, of course, depend entirely upon the volume of business. Based on the nature of the transactions, the work in the bank may be classified into nine departments, as follows: receiving, paying, exchange, collection, loans and discounts, transit, safety deposit, bonds, and bookkeeping.

RECEIVING DEPARTMENT

§ 36. **This Department** is in charge of one or more receiving tellers. The duty of the receiving teller is to receive the cash and cash items deposited in the bank and to credit each depositor in his pass book (Illustration No. 10) for the amount of his deposit. Each depositor lists the cash and cash items deposited by him on a deposit ticket (Illustration No. 11) provided by the bank; the receiving teller counts and inspects the cash, and verifies the endorsements and listing of the cash items and the addition of the deposit. The receiving teller will not accept a deposit from a new customer without the approval of an executive officer because the officials of the bank must know that each account is opened for a legitimate business purpose. When a new account is opened, the receiving teller requires the depositor to write his name on a signature card (Illustration No. 12) in the same form as he expects to sign checks.

When a collection charge is made on a cash item payable outside of the city, the receiving teller indicates on the deposit ticket and in the depositor's pass book the amount of the charge. On the first of each month, the bank will render the depositor a bill for the amount of these charges. Collection charges are made only on those checks which can not be collected without cost to the bank.

In account with

*Mission Woolen Mills*.....

Dr. MERCHANTS NATIONAL BANK

<sup>19</sup> Nov 16	Balance	18,241 20
18	Dep S.B.	425 15
19	✓ S.B.	1241 10
23	Coll F.N.F.	200
25	Dis J.E.K.	450
		20557 45
Dec 2	Balance	17,256 12
4	Dep S.B.	245 20
10	✓ S.B.	704 50

<sup>19</sup> Nov 30	24 VOUCHERS RETD.	3301 33
	Balance	17256 12
	CANCELLED VOUCHERS AS PER ENCLOSED SLIP	
		20557 45

Illustration No. 10. Pass Book.

EXPLANATION: The first entry on the left shows the balance forwarded from the preceding page; the second entry, a deposit entered by a receiving teller who is known as "S. B."; the third entry, another deposit; the fourth entry, a collection entered by teller "F. N. F." in the collection department; the fifth entry, the proceeds of a note discounted, entered by teller "J. E. K." in the loans and discounts department. The ruling indicates that the book was balanced November 30. The number and amount of canceled vouchers returned are entered on the right side and the balance carried down below the ruling on the left side. Some banks enter deposits on both sides of the pass book and balance the pass book by entering the balance on the line below the last deposit, ruling, and carrying the balance down. The detailed statement rendered the customer is explained on page 58.

§ 37. **Nature of Deposits.** The greater part of the cash received by banks comes through its depositors. The term "cash" here includes cash (currency and coins) and cash items (checks, etc.). The cash items received from a



DEPOSITED WITH  
**Merchants National Bank**

Dec. 10 19\_\_

CREDIT OF Mission Woolen Mills  
BY M White

PLEASE LIST ALL CHECKS BY BANK NUMBER

	DOLLARS	CENTS
CURRENCY _____	200	✓
GOLD _____		
SILVER _____		
CHECKS _____	42	50 ✓
(ENTER SINGLY)		
2-18	39	✓
2-1	42	3 ✓
79-254		
TOTAL \$	704	50 ✓

PLEASE SEE THAT ALL CHECKS AND DRAFTS ARE ENDORSED

depositor are divided into four classes: (a) checks payable by the bank receiving the deposit; (b) checks payable by other banks in the same city; (c) checks payable by banks outside of the city; and (d) special forms of checks, including post-office money orders, express money orders, and travelers' checks.

EXPLANATION: The illustration indicates that the Mission Woolen Mills, on December 10, deposited with the Merchants National Bank \$704.50; \$200.00 of this is currency, and \$504.50 cash items. The numbers at the left of the amount of the three checks are the numbers of the banks as explained in §60.

Illustration No. 11. Deposit Ticket.

Staples, T L

THE MERCHANTS NATIONAL BANK

Signature T L Staples

Signature \_\_\_\_\_

Address 14 Lakeside Ave Identified by J W Bowker

Telephone 624 R

Date Jan. 16 19\_\_

EXPLANATION: The illustration indicates that T. L. Staples has opened an account with the Merchants National Bank and that his check will be signed as indicated by his signature on the card. His address, name of the person by whom identified, telephone number, and date of opening the account are given for future reference. The card is punched to fit a filing device in which it will be filed alphabetically.

Illustration No. 12. Signature Card.

§ 38. **Provisional Credit.** Cash items received from a depositor are accepted with the understanding that they will be paid when presented. If a cash item is not paid when presented for payment, or if it is lost in the process of collection, the amount will be charged to the depositor. The bank will accept cash and cash items from a depositor and allow him to draw checks against the deposit without discrimination, but the depositor must be prepared to stand the loss if a cash item is not paid. A statement to this effect is usually printed in the front of the pass book so that there may be no possibility of misunderstanding.

There are many reasons why cash items may not be paid when presented. Chief among these is the fact that the maker does not have sufficient funds to his credit at the time the check is presented for payment. Other reasons are

incorrect signature, incorrect dating, incorrect endorsement, signature forged, etc. When a cash item is lost in the mail, the bank provides the depositor with all the facts in connection with it so that he can secure a duplicate. When a cash item is not paid, it is returned by the bank to the depositor and he is required to take it up by issuing a check for the same amount.

**§ 39. Mutilated Money.** The receiving teller will come in contact with paper money which is so badly worn that it should be withdrawn from circulation. Such money will be redeemed upon presentation to the authority which issued it. Paper money is issued by the United States Treasury, national banks and the Federal reserve banks. Mutilated paper money issued by reserve banks is sent to the reserve bank under which the member bank operates. Other paper money is sent to the United States Treasury at Washington, D. C. New paper money is issued in exchange for mutilated paper money sent to the reserve banks or the Treasury. (§ 103.)

Mutilated money sent for redemption must be assorted according to the source of issue and the denominations of each kind placed together. It is then put up in packages according to specifications, with the name of the bank depositing it written on the outside of the package. The clerical work in connection with the assembling of mutilated money is a source of considerable expense to the bank, but, like much of the other clerical work in the bank, is performed without cost to its customers.

**§ 40. Disposition of Cash and Cash Items.** Cash received from a depositor is placed with the other cash in the bank. Checks (cash items) are not cash and the bank must present them (except those payable by it) to the bank on which they are drawn in order to collect the cash. It is not necessary to present checks payable by the bank because the amounts of these can be charged to the accounts of the depositors who signed them. Checks payable by another bank in the city can be collected by personal presentation; the collection of these checks is usually made through the clearing house as explained in § 71. Presentation of a check payable by a bank located in another city is made through the mail; the collection of these checks is effected through clearing arrangements made with other banks as explained in § 57.

**§ 41. The Receiving Teller's Report.** At the close of each business day, the receiving teller makes a report of the transactions which he has completed during the day, and proves the correctness of his work. The money is placed in the vault and the checks are given to the proper department to be presented for collection. When this work has been completed, he passes his proof sheet to the general bookkeeper to be recorded on the general proof sheet. Since each teller and bookkeeper must prove his own work before any papers are allowed to leave the bank, it is necessary for banks to close at two or three o'clock in the afternoon in order to provide each clerk with sufficient time to make his proof. Should the bank continue to do business until the closing time of other business concerns, the tellers and clerks would have no opportunity to prove their work without working overtime.

## PAYING DEPARTMENT

**§ 42. This Department** is in charge of one or more paying tellers. If there is only one paying teller, he has charge of all the cash in the bank and gives out all cash which the bank is required to pay. Only a limited amount of cash is kept on the paying teller's desk, the balance being in the vault for safe-keeping. The work of the paying teller is more important than that of



the receiving teller. If an error is made in a deposit, it can be corrected by communicating with the depositor; but if an error is made in paying cash, it is difficult to correct because few will report an error of this kind, especially if it is in their favor. The paying teller must be familiar with the signature of each depositor to avoid paying money on forged checks. He has the privilege of requiring identification before paying money on checks, but should be so well acquainted with the customers of the bank that he will seldom have occasion to require identification. The paying teller must be a diplomat if he wishes to keep all the customers of the bank happy and at all times safeguard the interests of the bank.

§ 43. **Evidence of Payment.** The paying teller will require a receipt from the one to whom he pays cash belonging to the bank. If a depositor of the bank wishes to withdraw a part or all of the money he has deposited with the bank, he must present to the paying teller a check for the amount desired. This check may be made payable to himself or to "Cash." He receipts for the cash by signing his name on the back of the check. The same plan is followed by the teller when paying a check drawn on another bank, a post-office or express money order, certificate of deposit, or any other form of written order to pay money. The teller will not pay cash to anyone with whom he is not personally acquainted. A stranger must be identified and have the check endorsed by the one who identifies him.

The paying teller may receive as evidence of his payments the four classes of checks which are received by the receiving teller, but the majority will be checks payable by his own bank. It is customary for business concerns to deposit all checks received and to withdraw cash from the bank by checks drawn on the bank. A collection fee is usually charged for cashing checks payable by banks outside of the city.

§ 44. **The Paying Teller's Report.** At the close of each business day, the paying teller makes a report of the transactions which he has completed during the day. This report is proved to be correct before it leaves his possession. The amount of currency on his desk at the beginning of the day, plus the additional cash received from the vault during the day, minus the amount of checks which he has paid, should equal the balance of cash on his desk. If he has paid twenty dollars in cash on a check which orders him to pay only ten dollars, his proof will not balance by ten dollars. The cash on hand at the close of the day is placed in the vault for safe-keeping and the checks are given to the proper departments.

## EXCHANGE DEPARTMENT

§ 45. **This Department** is in charge of an exchange teller who issues and records all exchanges sold by the bank and collects and records the fees for issuing the same. As explained in § 19, "exchange" is a technical term applied to a check drawn by a bank on funds deposited with another bank. Exchange issued on a bank in a country other than the United States is known as "foreign exchange;" exchange issued on a bank in the United States is known as "domestic exchange."

§ 46. **Evidence of Payment.** The exchange teller receives cash for each bank draft which he issues and the fees for issuing the same. He requires the purchaser to fill out a blank (Illustration No. 13) which provides the necessary information for issuing the exchange; the purchaser designates the one to whom

EXCHANGE		
MERCHANTS NATIONAL BANK		
FAVOR OF <i>Fay Barnett</i>		
<i>Dec 10, 19</i>		
	DOLLARS	CENTS
NEW YORK	<i>365</i>	
CHICAGO		
EXCHANGE		<i>35</i>
TOTAL	<i>365</i>	<i>35</i>
PURCHASED BY <i>Crescent Corset Co</i>		

the exchange is to be made payable. The facts in connection with each exchange are recorded before it is given to the purchaser. At the close of the business day, the exchange teller will have on his desk cash (currency and cash items) equivalent to the total exchange issued during the day and the total fees for issuing the same.

EXPLANATION: The illustration indicates that the Crescent Corset Co. wishes to purchase a New York exchange for \$365.00 to be made payable to Fay Barnett. The bank charges 35 cents for issuing the exchange. It is evident that a check payable by a New York bank will be more convenient for Fay Barnett than a check signed by the Crescent Corset Co.

Illustration No. 13 Exchange Wanted Blank

§ 47. **The Exchange Teller's Report.** The exchange teller prepares a report of the transactions he has recorded during the day, showing the receipts, disbursements, and currency on hand at the beginning of the day and at the close of the day. He distributes the cash items to the other departments and places the cash in the vault.

The exchange teller may issue certificates of deposit and cashier's checks and attend to the certification of checks. If work of this nature is assigned to him, the transactions are recorded in the same manner as those relating to the issuing of exchange. His daily report will show the certificates of deposit and cashier's checks issued and the checks certified during the day in addition to the exchange.

## LOANS AND DISCOUNTS DEPARTMENT

§ 48. **This Department** is in charge of a note teller who receives, records and collects the notes, time drafts and trade acceptances which come to the bank as evidences of cash loaned, and the interest in connection with the loans. Each loan is approved by the president or cashier and the board of directors before it is completed by the teller. If the loan is made to a depositor, he receives credit for the proceeds in his pass book and in the depositors ledger; if it is made to one who is not a depositor of the bank, he is given cash or a cashier's check in payment of the proceeds.

Security for the payment of a loan may be personal or collateral. Personal security is given by having the surety sign the note with the maker or endorse it. In either case the surety guarantees payment. Collateral security is effected by giving as surety for the loan stocks, bonds, or other written evidence of ownership. The collateral is described in a collateral note (Illustration No. 14) given as evidence of the loan. This collateral may be attached to the note or filed separate from it. Private banks sometimes accept real estate



or personal property as collateral security. National banks are not permitted to do this. The legal requirements in connection with making loans secured by personal or real property make this class of security undesirable for banks.

\$ <u>5000<sup>00</sup></u>	BANGOR, MAINE, <u>Sept. 21,</u> 19__
<u>Six months</u>	AFTER DATE <u>I</u> PROMISE TO PAY TO
MERCHANTS NATIONAL BANK, OR ORDER	
<u>Five Thousand and no/100</u>	DOLLARS
FOR VALUE RECEIVED <u>I</u> HAVING DEPOSITED WITH THIS OBLIGATION	
AS COLLATERAL SECURITY _____	
<u>100 shares of Mission Woollen Mills Stock</u>	
<u>Certificate No. 4625 - Par value \$100.</u>	
WITH AUTHORITY TO SELL THE SAME WITHOUT NOTICE, EITHER AT PUBLIC OR PRIVATE SALE, OR OTHERWISE, AT THE OPTION OF THE HOLDER OR HOLDERS HEREOF ON THE NON-PERFORMANCE OF THIS PROMISE, HE OR THEY GIVING <u>me</u> CREDIT FOR ANY BALANCE OF THE NET PROCEEDS OF SUCH SALE REMAINING AFTER PAYING ALL SUMS DUE FROM <u>me</u> TO THE SAID HOLDER OR HOLDERS, OR TO HIS OR THEIR ORDER PAYABLE AT THE MERCHANTS NATIONAL BANK, BANGOR, MAINE.	
<u>Irvin Hague</u>	
<u>1543 W 49th St.</u>	

Illustration No. 14. Collateral Note.

EXPLANATION: The illustration indicates that Irvin Hague has borrowed \$5,000.00 from the Merchants National Bank and deposited as collateral security the certificate of stock described in the note. The bank is authorized to sell this stock if Mr. Hague does not pay the note when it is due.

§ 49. **Financial Statement.** The Federal Reserve Board recommends that each bank which is a member of the Federal Reserve Bank system require a financial statement from each person, firm or corporation that borrows money from it. Illustration No. 15 shows the information usually required on this statement. With this information available, the officials of the bank will be in a better position to extend credit to a borrower.

§ 50. **Loans and Discounts Teller's Report.** The note teller in charge of the loans and discounts department records and files the notes, drafts and trade acceptances accepted for discount as they are received. He prepares and mails notices for loans and discounts a short time before they are due so that the maker may be reminded of the due date. He accepts cash or cash items from the maker in payment for loans which are due. At the close of the day, he proves his work on a proof sheet, which goes to the general bookkeeper to be recorded on the general proof sheet.

§ 51. **Rediscounts.** A bank may sell the notes, drafts or trade acceptances which it holds as evidences of loans; this sale is referred to as a "rediscount." Banks which are members of the Federal Reserve Bank system

(Continued on page 29)



FINANCIAL STATEMENT To THE FIFTH-THIRD NATIONAL BANK

(Corporation)

CORPORATE NAME The Keystone Manufacturing Company

BUSINESS Manufacturers of automobiles

MAIN OFFICE Detroit, Michigan

LOCATION OF PLANT Detroit, Mich.

BRANCHES Cincinnati, Ohio

St. Louis, Mo.

FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU, FOR OUR NEGOTIABLE PAPER OR OTHERWISE, WE FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF OUR FINANCIAL CONDITION ON December 31 19..... AND HEREBY AGREE TO NOTIFY YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN OUR FINANCIAL CONDITION. IN THE ABSENCE OF SUCH NOTICE OR A NEW AND FULL WRITTEN STATEMENT, THIS IS TO BE CONSIDERED AS A CONTINUING STATEMENT, AND THAT OUR PECUNIARY RESPONSIBILITY HAS NOT FALLEN BELOW THE CONDITION HEREIN SET FORTH AND IT IS HEREBY EXPRESSLY AGREED THAT UPON APPLICATION FOR ADDITIONAL CREDIT OR RENEWAL THIS STATEMENT AND INFORMATION SHALL HAVE THE SAME FORCE AND EFFECT AS IF DELIVERED AS AN ORIGINAL REPORT OF OUR FINANCIAL CONDITION AT THE TIME SUCH ADDITIONAL CREDIT OR RENEWAL IS REQUESTED.

ASSETS				LIABILITIES			
CASH ON HAND		105	00	BILLS PAYABLE, (NOTES) FOR MERCHANDISE		5	000 00
CASH IN BANK		7	845 00	BILLS PAYABLE FOR BORROWED MONEY TO OWN BANKS			
BILLS RECEIVABLE OF CUSTOMERS, DUE WITHIN 90 DAYS		6	805 18	BILLS PAYABLE FOR BORROWED MONEY FOR PAPER SOLD			
BILLS RECEIVABLE OF CUSTOMERS, DUE BEYOND 90 DAYS		1	444 82	BILLS PAYABLE TO DIRECTORS OR STOCKHOLDERS			
ACCOUNTS RECEIVABLE, ALL GOOD, OWING FROM CUSTOMERS		23	000 00	OPEN ACCOUNTS NOT DUE		15	000 00
MERCHANDISE, FINISHED, AT ACTUAL PRESENT CASH VALUE		20	000 00	OPEN ACCOUNTS PAST DUE			
MERCHANDISE, UNFINISHED, AT ACTUAL PRESENT CASH VALUE		20	000 00	ACCOUNTS OWING DIRECTORS OR STOCKHOLDERS			
RAW MATERIAL		18	000 00	DEPOSITS AND OTHER TRUST FUNDS			
TRADE ACCEPTANCES OWNED		2	290 00	TRADE ACCEPTANCES PAYABLE		1	107 45
				Accrued Payroll		1	592 55
				Accrued Interest		8	000 00
TOTAL QUICK ASSETS		99	490 00	TOTAL CURRENT LIABILITIES		30	700 00
STOCKS, BONDS AND INVESTMENTS				MORTGAGES AND LIENS ON REAL ESTATE DUE			
MACHINERY AND FIXTURES		98	500 00	BONDS		116	000 00
REAL ESTATE,		122	500 00	CHATTEL MORTGAGES			
ACCOUNTS AND BILLS RECEIVABLE, OWING FROM OFFICERS AND EMPLOYEES				DUE TO CONTROLLED OR ALLIED CONCERNS, For Merchandise			
BILLS RECEIVABLE, OWING FROM DIRECTORS OR STOCKHOLDERS				DUE TO CONTROLLED OR ALLIED CONCERNS, For Advances			
ACCOUNTS RECEIVABLE, OWING FROM DIRECTORS OR STOCKHOLDERS		1	000 00				
DUE FROM CONTROLLED OR ALLIED CONCERNS, FOR MERCHANDISE							
DUE FROM CONTROLLED OR ALLIED CONCERNS, FOR ADVANCES				CAPITAL STOCK OUTSTANDING PREFERRED			
NOTES AND ACCOUNTS RECEIVABLE, 6 MONTHS OR MORE PAST DUE		1	235 65	CAPITAL STOCK OUTSTANDING COMMON		150	000 00
Deferred Charges			764 35	RESERVES { SURPLUS		12	790 00
Goodwill		50	000 00	UNDIVIDED PROFITS		40	000 00
				DEPRECIATION		24	000 00
TOTAL		373	490 00	TOTAL		373	490 00

I, HEREBY SOLEMNLY DECLARE AND CERTIFY THAT THE ABOVE IS A TRUE STATEMENT OF OUR BUSINESS.

CORPORATE NAME Keystone Manufacturing Co.

DATE SIGNED January 25 19.....

BY J. W. Baker President  
(Officers Title Must Be Given)

NOTE---IF YOU HAVE ANY DIFFICULTY IN FILLING IN THE FOREGOING STATEMENTS AND QUESTIONARY, THE CREDIT DEPARTMENT OR ANY OTHER OFFICER OF THIS BANK IS PREPARED TO EXTEND YOU COURTEOUS AND INTELLIGENT SERVICE; IN FACT, WE SOLICIT YOUR CO-OPERATION AND ACQUAINTANCE WITH OUR CREDIT METHODS.

Illustration No. 15.  
Financial Statement Submitted to the Bank by a Borrower.

(Continued from page 27)

rediscount their paper with the reserve bank or branch reserve bank under which they operate; the Federal Reserve Board fixes the rate of interest to be charged on rediscounts. Each member bank is given a credit rating and can rediscount commercial paper up to this amount.

Banks which rediscount with the Federal Reserve Bank have the privilege of taking up the rediscounted paper at any time before maturity; they are required to pay it at maturity. There is a contingent liability on paper rediscounted by the bank because of the endorsement. This should be shown in connection with the loans and discounts on the Statement of Resources and Liabilities.

COLLECTION DEPARTMENT

§ 52. **This Department** is in charge of a note teller who receives, records and collects notes, drafts, trade acceptances and other commercial paper accepted by the bank for collection. Commercial paper accepted for collection is not the property of the bank, and the only obligation it assumes is to use its best efforts for collection. A fee is charged for the service rendered in connection with the collection of commercial paper.

§ 53. **The Process of Collection.** Commercial paper accepted for collection and payable in the city in which the bank is located is kept on file in the bank; commercial paper payable outside of the city is sent to a correspondent bank or the bank at which it is payable for collection. The note teller in charge of collections sends a notice to the payer of each paper a few days before it is due. When collection is made, he sends a notice to this effect to the one who left it with the bank for collection. If the collection is made for a depositor, he is instructed to bring his pass book for credit; if he is not a depositor, a cashier's check for the proceeds accompanies the notice of collection.

NOTICE OF COLLECTION							
THE MERCHANTS NATIONAL BANK							
RECEIVED FROM		DATE Dec. 10, 192		OUR No. 245			
Cope Electric Co. Centerville							
FAVOR OF Cope Electric Co.				ADDRESS Centerville			
MAKER Earl Jesse				ADDRESS Centerville			
Your No.	Date of Letter	Date of Note	Time	Protest	Int.	Due	AMOUNT
105	Dec. 2	Oct. 11	60 ds	No		Dec. 10	50 50
INSTRUCTIONS Less collection charges							50
INTEREST							
TOTAL							50 00
REMITTED	RETURNED	CREDITED	LESS EXCHANGE				
ENCLOSED DRAFT No.		ON		FOR			
PRESENTED		NOTIFIED Present pass book for credit					
Reason for Non-Payment, if any given, enclosed on back of Paper.				RESPECTFULLY YOURS, <i>O. Garber</i> CASHIER.			

EXPLANATION: This is the report of a collection made by O. Garber, cashier of the Merchants National Bank, of a note which has been left at the bank by the Cope Electric Co. The number of the paper, according to the Cope Electric Co.'s records, is given in the first column at the left; the date the note was received for collection, in the second column; the date of the paper, in the third column; time, in the fourth column; information in regard to protest, in the fifth column; interest, in the sixth column; date due, in the seventh column; and amount to be collected, in the eighth column. This information is for the book-keeper of the Cope Electric Co. when he makes the entry for the collection. The Merchants National Bank charges fifty cents for making the collection. The Cope Electric Co. is instructed to present their pass book and receive credit

Illustration No. 16. Notice of Collection.

for the proceeds. If the Cope Electric Co. had not been a depositor of the bank, a cashier's check for the proceeds would have accompanied the report.



MERCHANTS NATIONAL BANK

YOUR NOTE No. 87 dated Sept. 20, 19--

FOR \$ 5000<sup>00</sup> and interest 75<sup>00</sup> PAYABLE AT  
Merchants National BANK

IS DUE Dec. 20, 19-- PLEASE PAY THIS ITEM BEFORE 2:00 P. M. AT BANK  
 NAMED ABOVE ALL CHECK IN PAYMENT OF COLLECTIONS MUST BE CERTIFIED.

NAME Overland Mfg. Co.  
 STREET Corner 3rd & Main St.

COLLECTION DEPARTMENT

EXPLANATION: This is a notice mailed by the Merchants National Bank to the Overland Manufacturing Co., advising the maturity of a note which this concern is to pay at the Merchants National Bank. These notices are usually sent a week or ten days in advance of the maturity of the paper and show the date of the paper, amount to be paid, and date of maturity. If the Overland Manufacturing Co. does not pay this note before two o'clock on December 20, it will be protested unless the right of protest has been waived by the owner of the paper.

Illustration No. 17. Notice of Maturity.

§ 54. **Protest.** The endorser of a negotiable paper agrees to pay the paper provided he is given due notice that the maker or payer has not paid it. The law provides that the only legal method of notifying the endorser is for the holder to deliver the paper to a notary public, who presents it to the maker or

Johnson City, Tenn., Feb. 25, 1922

To South-Western Publishing Co.

TAKE NOTICE, that a check drawn  
 by J. Allen McCarty  
 on Tennessee National Bank, Johnson City  
 in favor of South-Western Publishing Co.  
 and endorsed by South-Western Publishing Co.  
Fifth-Third National Bank, Cincinnati, Ohio.  
Federal Reserve Bank, Nashville, Tenn.  
 dated Feb. 16 1922  
 due on presentation payable at  
Tennessee National Bank, Johnson City, Tenn.  
 for payment  
Forty-five and 83/100 DOLLARS

was this day presented by me and payment demanded, which  
 was refused, whereupon said check was duly  
 PROTESTED by me for non-payment, and you will be held liable  
 for the same, with all costs, interest and damages that may be  
 sustained by reason of said refusal.

Yours respectfully,  
 L. R. DRIVER,  
 Notary Public.

payer and, if payment is refused, notifies each endorser. This notice sent by the notary public is known as a "notice of protest," the form of which is shown in Illustration No. 18. The fee allowed the notary public for his services is paid by the owner of the paper, but becomes a part of the obligation and is collected from the maker or payer. If the holder does not wish the paper protested, he so instructs the bank when he leaves it for collection.

EXPLANATION: The illustration indicates that South-Western Publishing Co. are the endorsers of a check signed by J. Allen McCarty, payable at the Tennessee National Bank, and that payment of the check was refused when presented. The check was protested and a notice of protest sent to each endorser by the notary public.

Illustration No. 18. Notice of Protest.



§ 55. **Collection Teller's Report.** The note teller in charge of the collection department records the commercial paper accepted for collection by the bank during the day, and accepts cash or cash items in payment for collections due. At the close of the day, he proves the correctness of his work on a teller's proof sheet and passes this to the bookkeeping department to be recorded on the general proof sheet. The cash and cash items received in payment of commercial papers are distributed to the proper departments.

## TRANSIT DEPARTMENT

§ 56. **This Department** is in charge of a manager or teller who receives, records and collects the checks payable by banks outside of the city, usually referred to as "transit items." Transit items are received by all departments of the bank and referred to the transit department for collection. These are collected through the mail, either direct from the banks on which they are drawn or through correspondent banks.

§ 57. **Correspondent Banks.** A correspondent bank is one with which arrangements have been made for the collection of transit items. The correspondent bank acts as collecting agent for checks payable on its bank, other banks in the same city with it, and banks within a fixed territory outside of the city. The Federal Reserve Bank and its branches are used extensively for the collection of transit items. Each member bank has an account with the Federal Reserve Bank or its branch in the territory, and sends to this bank all checks payable in the city where the reserve bank is located and in the territory adjacent to this city.

Transit items payable by banks which are not in the territory of a correspondent bank are mailed direct to the bank with a request to remit by bank draft. Such remittances are made either by cashier's check, New York exchange, or exchange on a large city near the bank which sent the transit item for collection.

§ 58. **The Transit Letter.** The teller or manager in charge of the transit department records each transit item received and sent for collection. A letter is sent with the transit items remitted to each bank; this is known as a "transit letter." This letter shows the amount and the name and address of the bank on which each transit item is payable, also the total amount of the transit items which accompany the letter. A carbon copy of each transit letter is retained, thus providing a record of the transit items sent for collection. Since the transit department should also have the name of the person from whom the bank receives the transit item, the transit letters are so arranged that this additional information is provided in connection with the carbon copy of the transit letter. Illustration No. 19 shows a popular form of the transit letter and the accompanying stub which provides the additional information needed by the bank.

§ 59. **Numerical Transit System.** Much of the clerical work in the transit department is due to the writing of the names and addresses of banks on which checks are drawn. To avoid this clerical work and to enable banks to use machines in the preparation of transit letters, the Clearing House Association of the American Bankers' Institute inaugurated in 1911 a plan whereby each bank would be designated by number as well as name. It has required

several years to get all the banks to comply with this plan, but now practically every bank may be designated by number as well as name.

§ 60. **Plan of Numbering.** Numbers 1-49 are reserved for the larger cities. Numbers 50-99 are reserved for the states. The banks in each of the forty-nine cities are designated by a number. The banks in each of the forty-eight states, outside of any large cities in the state which may be numbered, are designated by a number. These numbers are printed on the blank checks supplied to a customer at the time he opens an account with the bank or when additional checks are needed. Reference to Illustration No. 20 will show the numbers assigned to the cities and states.

Each blank check provided by the "Bank of New York," New York City, New York, will have printed somewhere on it, usually following the name of the bank, "1-1". This means that it is the first bank on the list of New York City banks, New York City being No. 1 on the numerical list of cities. Each blank check provided by the Fifth-Third National Bank, Cincinnati, Ohio, will have printed on it "13-31." This means that it is No. 31 on the list of Cincinnati banks, Cincinnati being No. 13 on the numerical list of cities. Each

(Continued on page 33)

<b>Remittance Statement</b>			<p><b>MERCHANTS NATIONAL BANK</b>                  Centerville <u>Dec 10</u> 19__  <i>Mr. James M. Wakefield, Cashier</i>  <i>The Corn. Exc. Nat'l Bank, Chgo.</i></p> <p>Gentlemen:                  We enclose for collection and credit <sup>items</sup> <del>cash</del> as follows:                  Yours respectfully,                  O. GARBER, Cashier.</p> <p><small>Do not protest items \$10.00 or under, or those stamped [NP 59-360] on the items themselves or similar authority of a preceding endorser. Protest all items over \$10.00 unless otherwise instructed. Wire non-payment of items \$500.00, or over, and list "T. N. P."</small></p>		
DATE CREDITED <u>Dec 20, 19</u>					
DATE	MAKER	LAST ENDORSER	NO	ON WHOM DRAWN	AMOUNT
<i>Dec 4</i>	<i>O. Norwich Jewelry Co</i>	<i>2</i>	<i>2346</i>	<i>2-18</i>	<i>42 50</i>
<i>5</i>	<i>70-656</i>	<i>2</i>	<i>195036</i>	<i>2-1</i>	<i>39</i>
<i>5</i>	<i>Sanatorium Co</i>	<i>2</i>	<i>1456</i>	<i>79-254</i>	<i>423</i>
<i>4</i>	<i>Trickey</i>	<i>1</i>	<i>425</i>	<i>79-86</i>	<i>324</i>
<i>7</i>	<i>Crescent Carpet Co</i>	<i>59-360</i>	<i>9852</i>	<i>70-501</i>	<i>365 35</i>
					<i>1193 85</i>

Illustration No. 19. Transit Letter and Remittance Register.

EXPLANATION: The illustration shows a popular form of the transit letter and remittance register. The space at the left is the stub of the carbon copy of the transit letter. The space at the right is the transit letter, beneath which is a carbon copy which the bank retains; the transit letter is torn off at the dotted line on the extreme right and sent with the transit item. This letter shows five transit items. The first, third, fourth and fifth are checks; the second is a bank draft. The transit letter shows the number on each transit item, the bank on which it is payable (§ 60) and the amount. The letter states that the items are sent for credit and gives specific instructions in regard to protest. The stub and carbon copy of the transit letter provide the information for the remittance register (§ 84).



blank check issued by the First National Bank, Davenport, Iowa, will have printed on it "72-1." This means that it is No. 1 on the list of Iowa banks, Iowa being No. 72 on the numerical list of states. A list of all the banks in the United States, together with their numbers, is published for sale to banks. Reference to this directory by a clerk in the transit department will enable him to determine the name and address of any bank listed by number in the transit letter.

1. New York City	13. Cincinnati, O.	25. Columbus, O.	37. Ft. Worth, Tex.
2. Chicago, Ill.	14. New Orleans, La.	26. Memphis, Tenn.	38. Savannah, Ga.
3. Philadelphia, Pa.	15. Washington D. C.	27. Omaha, Neb.	39. Oklahoma City, Okla.
4. St. Louis, Mo.	16. Los Angeles, Cal.	28. Spokane, Wash.	40. Wichita, Kas.
5. Boston, Mass.	17. Minneapolis, Minn.	29. Albany, N. Y.	41. Sioux City, Ia.
6. Cleveland, Ohio	18. Kansas City, Mo.	30. San Antonio, Tex.	42. Pueblo, Colo.
7. Baltimore, Md.	19. Seattle, Wash.	31. Salt Lake City, Utah	43. Lincoln, Nebr.
8. Pittsburgh, Pa.	20. Indianapolis, Ind.	32. Dallas, Tex.	44. Topeka, Kas.
9. Detroit, Mich.	21. Louisville, Ky.	33. Des Moines, Ia.	45. Dubuque, Ia.
10. Buffalo, N. Y.	22. St. Paul, Minn.	34. Tacoma, Wash.	46. Galveston, Tex.
11. San Francisco, Cal.	23. Denver, Colo.	35. Houston, Tex.	47. Cedar Rapids, Ia.
12. Milwaukee, Wis.	24. Portland, Ore.	36. St. Joseph, Mo.	48. Waco, Tex.
			49. Muskogee, Okla.
50. New York	63. Florida	76. Nebraska	88. Texas
51. Connecticut	64. Georgia	77. North Dakota	89.
52. Maine	65. Maryland	78. South Dakota	90. California
53. Massachusetts	66. North Carolina	79. Wisconsin	91. Arizona
54. New Hampshire	67. South Carolina	80. Missouri	92. Idaho
55. New Jersey	68. Virginia	81. Arkansas	93. Montana
56. Ohio	69. West Virginia	82. Colorado	94. Nevada
57. Rhode Island	70. Illinois	83. Kansas	95. New Mexico
58. Vermont	71. Indiana	84. Louisiana	96. Oregon
59.	72. Iowa	85. Mississippi	97. Utah
60. Pennsylvania	73. Kentucky	86. Oklahoma	98. Washington
61. Alabama	74. Michigan	87. Tennessee	99. Wyoming
62. Delaware	75. Minnesota		

#### Illustration No. 20. Numbers of the Cities and States in the United States.

**EXPLANATION:** The first forty-nine numbers are reserved for the forty-nine largest cities arranged according to their population based on the 1910 census. Checks payable by a bank in each city have printed on them the number appearing at the left of the city in the above list. In addition to this, they have the serial number of the banks in the city. Numbers 50-99 are the states grouped geographically. Two blank numbers are provided for new states that may be admitted to the Union. Each check, payable by a bank located in New York State in a city or town other than a reserve city, will have No. 50 printed on it. In addition to this, it will have the serial number of the bank.

**§ 61. Transit Teller's Report.** At the close of each business day, clerks in the transit department assort all transit items by placing in separate packages those which are to be mailed to the different banks. This work requires the services of one who is familiar with the territory of each correspondent bank. After the checks have been assorted, a transit letter is prepared for the checks which are to be sent to each bank. When all transit letters have been prepared, the work in this department is proved before any transit letters are mailed. The teller in charge of this department makes a report of the transactions completed during the day and submits it to the general bookkeeper for record on the general proof sheet.

**§ 62. Numbering Depositors.** Many banks assign a number to each depositor. This is very convenient for the transit department as the number

(Continued on page 35)



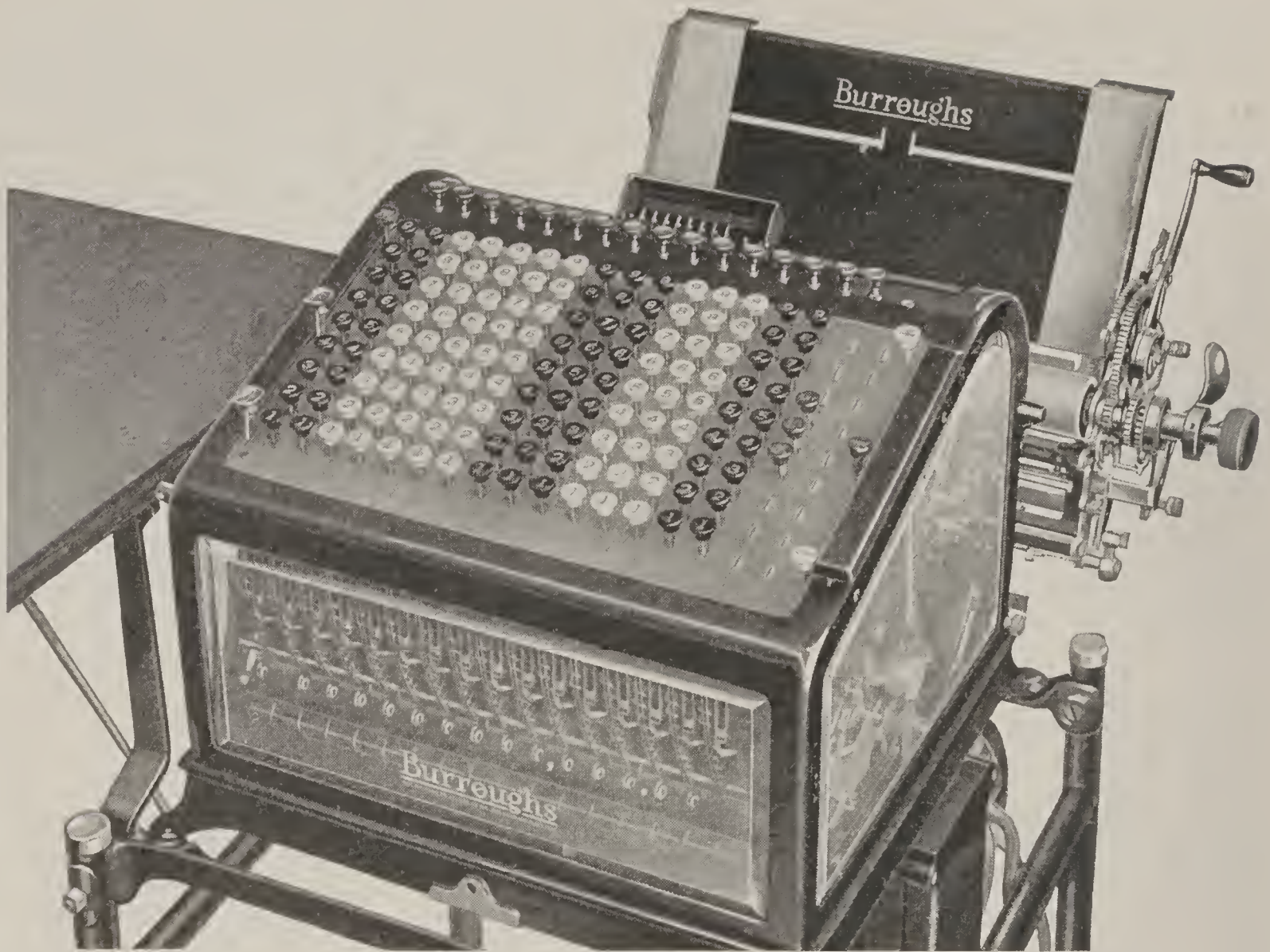


Illustration No. 21. Transit Machine.

First and Old Detroit National Bank			
DETROIT, MICH.			
To	Federal Reserve Bank, Cleveland; Ohio.		
We enclose the following CASH items:			
<i>Instructions:</i>			
Telegraph non-payment of items \$500.00 or over and items listed "T. N. P."			
Do not protest items \$20.00 or less or those stamped similar authority of a preceding endorser.			
			N. P. 9-1 or
ENDORSER	PAYER	AMOUNT	INSTRUCTIONS
			* *
3	4 0	5 6 6 9 4	2 1 5 6
2	4 5 4	5 6 6 9 4	1 0 5 0
3 2	4 3 3	6 0 2 2 1	5 0 0 0 0 T.N.P.
4 3	2 5		1 1 5 4
4 3	3 3 2	6 0 4 3 3	5 0 0
5	1 2	6 0 3 2 2	2 3 5 5 6
5	1 2	6 0 3 2 2	3 4 5 4 5 BLATT
4 5	5 5 6	5 6 1 4 5	1 2 5 0
4 5	5 4 3	5 6 6 7	7 6 5 0 BLATT
1 2	3 2 5	5 6 2 4 3	3 5 0 0
			1 2 5 3 6 1
			0 * *

EXPLANATION — Illustration No. 21. The transit letter may be prepared on this machine and all the information desired indicated by number. This machine is the result of the numerical system explained in § 59.

EXPLANATION — Illustration No. 22. The figures in the first column indicate the name of the bank from which each transit item was received. The figures in the second column indicate the name of the bank on which the checks are drawn. Colors are used so as to distinguish the state number of the bank from the city number (two figures at the right).

Illustration No. 22. A Transit Letter Prepared With a Transit Machine.



(Continued from page 33)

can be used in place of the name of the depositor. Other banks with which the bank does business are not interested in the name or numbers of its depositors, but the records of the transit department should show the name of the depositor from whom the cash item, which is sent out for collection, was received. The use of a number to represent a depositor greatly facilitates the use of a machine for listing transit items.



Illustration No. 23.

#### Transit Department and Machine for Writing Transit Letters.

**EXPLANATION:** In the files shown at the right in the picture, space is provided for transit items which are to be sent to correspondent banks. As the checks come to the transit department they are filed in the compartment for each bank. The transit letters are made up from these files.

§ 63. **No Protest.** Cash items sent for collection and credit and for collection and remittance are subject to protest because of the endorsement. It is customary for the bank to give instructions in the transit letter in regard to protest. Unless such instructions are given, the receiving bank will protest checks which are not paid upon presentation. The usual transit letter has printed on it a statement to the effect that items amounting to ten dollars or less are not to be protested. If a depositor is willing to waive protest on checks which amount to more than ten dollars, he can indicate this by stamping on the check "No protest," or by attaching to it a slip with these words written or printed on it.



## SAFETY DEPOSIT DEPARTMENT

§ 64. This Department is equipped with fire and burglar-proof vaults arranged for the convenience of those who wish to deposit valuables therein. The interior of these vaults is divided into compartments, and each compartment

*(Continued on page 37)*



EXPLANATION: The outside door is controlled by a time-lock, the combination of which is known by one of the executive officers of the bank. The wall at the left of the three men is made up of steel compartments, each of which contains a steel box which is protected by a small steel door with a double lock.

Illustration No. 24. The Exterior and Interior of a Safety Deposit Vault.



equipped with a steel box. A charge based on the size of the box is made for its use. One desiring to rent a box or space in a safety deposit vault makes arrangements with the manager of the department for the desired space, pays the fee for the space, and is provided with a key to the lock on the box assigned. The manager retains a master key with which he must unlock a master-lock on the box before the customer can open it with his key. Every precaution is taken to safeguard the interest of those who have rented boxes in the vault, and each new customer must satisfy the manager that his intentions are the best and

that he is worthy of confidence before he is assigned space. Illustration No. 24 shows the exterior and interior of a safety deposit vault, and Illustration No. 25, a form of identification card required by the bank.

		SAFE NO. 3214
		DATE 12-10-19
SIGNATURE	<i>O. A. Shives</i>	
RESIDENCE	<i>1625 Grand Ave.</i>	PASSWORD <i>Muzpah</i>
BUSINESS	<i>Retail Shoe</i>	ADDRESS <i>625 S. Broadway</i>
MOTHER'S MAIDEN NAME	<i>Rheta Read</i>	BIRTHPLACE <i>Canton, Ohio</i> AGE
HEIGHT	<i>5'10½</i>	COMPLEXION <i>Light</i> HAIR <i>Light</i> EYES <i>Blue</i> WEIGHT <i>150</i> FIGURE <i>Erect</i>
		DATE 12-10-19
SIGNATURE	<i>Alfred Higgins</i>	
RESIDENCE	<i>428 Euclid Ave.</i>	PASSWORD <i>Koran</i>
BUSINESS	<i>Retired</i>	ADDRESS
MOTHER'S MAIDEN NAME	<i>Nellie Loth</i>	BIRTHPLACE <i>Macon Ga</i> AGE <i>62</i>
HEIGHT	<i>5'-7"</i>	COMPLEXION <i>Dark</i> HAIR <i>Brown</i> EYES <i>Brown</i> WEIGHT <i>142</i> FIGURE <i>Plump</i>
DEPUTY		
MERCHANTS NATIONAL BANK, Safe Deposit Dept.		

EXPLANATION: The illustration shows that two people have access to this box. A complete description, as well as the signature of each, is given in the card. This card is kept on file by the manager of the department and is used in connection with identification when required.

Illustration No. 25. Identification Card for Safety Deposit Department.

## BOND DEPARTMENT

§ 65. **This Department** is in charge of a manager or teller who has supervision over all transactions relating to the purchase and sale of stocks and bonds. It is not generally considered good policy for a commercial bank to invest heavily in bonds because they are not self-liquidating on a short-time basis. However, there are some good reasons why banks should invest in bonds, hence the department is maintained to take care of the transactions. Some of these reasons are (a) to obtain income from the bonds as investments, (b) to obtain certain privileges, and (c) to assist the Government in its finances. The income results from the interest collected by the owner of the bonds, The privileges may be, in the case of national banks, the use of bonds as collateral security for issuing national bank currency; in the case of all banks, the depositing of bonds as collateral security for Government, state or municipal funds deposited. During the World War, banks throughout the United States acted as selling agents for the war loans of the Government, in this way rendering a great service to the Government in a time of public danger.

The transactions in the bond department relate largely to the purchase and sale of Government, state, county, municipal, and commercial bonds. These bonds are purchased on the stock market through bond houses, or direct through the corporation issuing them; they are sold to the customer upon his order. The bond department must be in constant touch with the stock market in order to know the selling price of the various bonds which it carries in stock.

This is effected by the installation of a stock ticker which reports by telegraph all transactions completed on the stock market at the time they are completed. The profit in this department results from an increase in the market value of the bonds and a commission charged for the completion of each transaction; the loss results from a decrease in the market value of the bonds.

As a general rule, banks do not deal extensively in stocks because it is not considered the best policy for a commercial bank to invest in this class of securities. However, there are certain stock transactions which may be completed by the bond department. In the case of national banks, these include the purchase of stock in the Federal reserve bank under which the bank is operating, and the purchase of stock in other banks. The Federal Reserve Act allows each member bank to invest an amount not exceeding ten per cent of the paid-in capital and surplus in the stock of other banks chartered under national or state law, and engaged principally in foreign banking. State banks are not limited in their stock operations except by the good judgment of the management, unless there is a special state statute governing the investment in this class of securities.

A careful record of each bond or series of bonds bought or sold by the bank is made in the Bonds Bought register and Bonds Sold register. Each of these registers is provided with columns so that the record of a bond transaction can be made on one line. Stocks and bonds owned by the bank are kept in the vault under the supervision of the bond teller. Interest coupons are usually detached a few days before they are due and given to the collection department for collection. In addition to making a careful record of all stocks and bonds bought or sold, the manager or teller in charge of the bond department prepares a daily proof sheet in the same manner as the tellers in the other departments. Cash items received for the sale of stocks and bonds are distributed to the proper departments for collection.

## BOOKKEEPING DEPARTMENT

§ 66. **This Department** is in charge of one or more bookkeepers whose duty it is to keep the accounts of the bank. If the volume of business is small, one bookkeeper would keep the accounts with depositors, correspondent banks, operating costs and income. If the volume of business is large, one or more bookkeepers are required to keep the accounts with depositors and one or more to keep the general accounts. Those who keep the accounts with depositors are referred to as depositors bookkeepers, and those who keep the general accounts, as general bookkeepers.

§ 67. **Accounts with Depositors.** The duty of the depositors bookkeeper is to keep the account with each individual, firm or corporation which has money on deposit with the bank. This record is kept in a special ledger, usually referred to as the depositors ledger. The debits and credits to each depositor's account are posted from his deposit tickets and checks. The entries in this ledger are made at the close of each business day so that the officials may know the balance due each depositor at the beginning of the next business day. The balance due each depositor is ascertained by adding the deposits for the day to the balance at the beginning of the day and subtracting from this total the checks paid by the bank during the day. If no deposit was made, the new balance is the difference between the old balance and the checks; if no checks were written, the new balance is the old balance plus the total of the deposits for the day; if no deposits were made nor checks written, the new bal-



ance is the same as the old. The bookkeeper in charge of the depositors ledger proves his work at the close of the day by adding the total deposits for the day to the total balance due depositors at the beginning of the day, and deducting from this the total checks paid during the day; the result of this subtraction should be the same as the total of all balances at the close of the day.

§ 68. **Overdraft.** If the total of the checks written by a depositor is greater than the total amount deposited by him, his account shows an "overdraft." The depositors bookkeeper indicates an overdraft by writing the amount of the overdraft in red ink. The total of the overdrafts is deducted from the total balances when making a proof of the depositors' accounts at the close of the day.

Overdrafts are discouraged by all banks, because there is no security for the temporary loan. If a depositor wishes to withdraw from the bank a sum in excess of that which he has deposited, he should arrange with the cashier for a loan, so that the bank will have the proper security. Member banks of the Federal Reserve Bank system are instructed by the Comptroller of Currency to discourage overdrafts, as shown by Illustration No. 26.

<p><b>Merchants National Bank</b></p> <p style="text-align: right;"><i>Dec 10 1911</i></p> <p>Mr. <i>Milton Foster</i> <i>218 Bush St.</i></p> <p>Dear <i>Sir:</i></p> <p>We are holding your check for \$ <u>25<sup>00</sup></u>, which if charged to your account would cause an overdraft of \$ <u>4<sup>62</sup></u>. The recent regulation governing overdrafts, a copy of which is herewith reproduced, will explain our position and the necessity of this notice. If you will kindly call as soon as possible and arrange so that the check may be regularly charged it will be greatly appreciated.</p> <p>We hope to receive your hearty co-operation in dealing with the overdraft problem and assure you that the assistance of our customers will prove very helpful.</p> <p>Thanking you in advance, I am,</p> <p style="text-align: right;">Yours respectfully, <b>O. GARBER, Cashier.</b></p>	<p style="text-align: center;">(Copy) TREASURY DEPARTMENT Comptroller of the Currency Washington, D. C.</p> <p>To the Board of Directors: Gentlemen:</p> <p>The granting by some banks of accomodation in the form of overdrafts is objectionable and can not be countenanced by this office. This practice should cease entirely. To facilitate the accomplishment of this result, the subject has been taken up by this office with the banking departments of various states and the authorities have generally agreed to take necessary action to secure the effective co-operation of State Banks in attaining the end desired.</p> <p>You are requested to adopt a resolution directing that no officer or employee of your bank shall pay or charge to the account of any depositor any check of such depositor where there are not sufficient funds on deposit to the credit of the drawer of the check to meet the same.</p> <p>Please forward a certified copy of the resolution to this office as soon as it has been adopted. Let the resolution show the name of the directors present at the meeting. Please acknowledge receipt without delay.</p> <p style="text-align: right;">Respectfully, JNO. SKELTON WILLIAMS, Comptroller.</p>
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Illustration No. 26. Notice of Overdraft.

§ 69. **General Accounts.** The general bookkeeper records all the transactions for the day in the general cash book and posts from this to the general ledger. The accounts in the general ledger include the assets, liabilities, income, operating cost, and special profit and loss accounts. Illustration No. 46 shows a popular form of ruling for the general ledger. The Comptroller of Currency can require a Statement of Resources and Liabilities at the close of any business day, and for this reason national banks usually require that the accounts on the Trial Balance be arranged to conform to the standard form of statement required by the Comptroller of Currency.

§ 70. **The Messenger or "Runner"** is the clerk whose duty it is to present local papers for collection. The commercial papers presented by the messenger consists of notes, sight drafts, time drafts, trade acceptances, checks deposited and returned to the bank unpaid and charged back to the depositors, and other business papers. Cash or checks given in payment for these papers are delivered by him to the proper department in the bank.

## THE CLEARING HOUSE

§ 71. **The Clearing House** is an association of banks located in the same city. The purpose of this association is to facilitate the collection of checks, formulate rules and regulations governing collection charges and other operations of the member banks, and to provide for their mutual protection during periods of business depression. Checks payable by local banks may be collected by messengers from the various banks who meet and exchange checks. If each bank in the city makes the same charge for discounting and collecting notes, drafts, trade acceptances, and other commercial paper, and pays the same rate of interest for time deposits, all depositors will be better satisfied, hence more efficient service can be rendered by each bank.

During a period of financial depression, one bank may become involved to such an extent that its depositors, fearing legal complications, may decide to withdraw their funds. No bank keeps sufficient cash on hand to pay all of its depositors at one time, hence the bank involved might have to go into bankruptcy.

A desire on the part of all the depositors to withdraw their funds at one time is often referred to as a "run" on the bank. When such a condition arises, the members of the Clearing House Association can protect the bank on which the run is being made by providing sufficient funds to pay the depositors who wish to withdraw their cash, and thus reestablish confidence in the bank. It is to the interest of all banks in the Clearing House Association to protect a member bank because a run on one bank might result in runs on other banks, which would be disastrous to all the banks in the association.

§ 72. **Method of Clearing.** Checks payable on other banks in the city are collected on the day following the one on which they are received. At the close of the day, the clerks in each bank assemble the checks payable on other banks in the city and place those payable on each bank in a separate package. The name of the receiving bank, date and total are written on a slip of paper, which is attached to the package of checks for each bank. The total due from each bank, as shown by the total on the slip of paper attached to each package of checks, is entered in the "Amount Sent" column on the clearing house statement (Illustration No. 27), the amount payable by each bank being placed on a line with the name of the bank. The total of the "Amount Sent" column is the amount to be collected from all the other banks in the city. No account is kept with the clearing house, hence this total is treated as a cash item when making the cash proof for the day. The clearing house checks and statement are placed in the vault for the night as collection is not to be made until the following morning.

Before noon of the following day, the clearing house checks are removed from the vault, endorsed, and sent by messenger to the office of the Clearing House Association. This office is equipped with a desk for the manager and



one for the representative of each bank. As each messenger enters the office, he passes the desk of the manager and announces the total of the "Amount Sent" column on his clearing house statement. He then places the checks payable by each bank on the desk assigned to the representative of the bank, after which he takes a seat at his own desk. If all the messengers follow this plan, each will find on his desk a package of checks from each bank, or from as many banks as have accepted checks payable by his bank. Each package of checks on a messenger's desk will have the total and name of the bank written on a slip of paper attached to it. Each messenger enters in the "Amount Received" column the total of the checks received from the other messengers; the amount is entered on a line with the name of the bank. Each messenger announces to the manager the total of the "Amount Received" column on his clearing house statement; these totals, when added by the manager, will be the same as the total of the checks brought to the clearing house by the various messengers. Each messenger ascertains the amount due to or owed by his bank by subtracting the total of the "Amount Received" column from the total of the "Amount Sent" column, or the reverse. Each messenger returns to his bank with the clearing house statement and checks received. Sometime during the day, usually before one o'clock, settlement is made, either by check or cash. Those banks which owe the Clearing House Association pay the amount owed; the various amounts paid by these banks will be sufficient for the manager of the clearing house to pay those banks whom the clearing house owed through the daily settlement. In those cities where a Federal Reserve Bank or branch reserve bank is located, settlement is usually made by check on this bank.

CLEARING HOUSE STATEMENT				
				DATE <u>Dec 10</u> 19__
AMOUNT SENT	BANK NO	MEMBER		AMOUNT RECEIVED
327 60	59-359	First National Bank		659 30
	59-360	Merchants Nat. Bank		
101	59-361	Security National Bank		150
33	59-362	Citizens National Bank		152 30
461 60		TOTALS		961 60
500		DR. BALANCE	CR. BALANCE	

EXPLANATION: The date is the one preceding the day on which settlement is made. The amounts in the "Amount Sent" column are the totals of the checks held by the bank making the statement. The checks in the "Amount Received" column are those received at the meeting of the messengers. The Merchants National Bank owes the other banks \$500.00 because the total of the "Amount Sent" column is this amount less than the total of the "Amount Received" column. This \$500.00 will be paid to the manager and he will use it to pay the other banks which have a credit balance.

Illustration No. 27. Clearing House Statement.

The clearing house statements published in the daily newspapers show the total of the local checks paid by the banks in the city for the time specified. This total is, to a certain extent, an index to the volume of cash business done in the city, because checks are used extensively in the settlement of cash transactions.

The term "clearing" refers to the collection of checks in a given territory and is not used exclusively in connection with the collection of local checks. New York City is regarded as a clearing point for the collection of checks payable by banks in the city of New York and adjacent territory; Chicago, a clear-

ing point for banks in Chicago and adjacent territory; Dallas, Texas, a clearing point for checks payable in Dallas and the Southwest; Atlanta, Georgia, a clearing point for checks payable in banks in Atlanta and the Southeast; San Francisco, a clearing point for banks in San Francisco and California. Each large city is in effect a clearing point for the territory which it serves.



## BOOKS OF ACCOUNT

§ 73. **The Books of Account** required in connection with recording the transactions performed by a bank consist of (a) the various tellers' proof sheets, (b) the general proof sheet, (c) the registers required for recording loans and discounts, collections, exchange, certified checks, certificates of deposit, and cashier's checks, (d) the loans and discounts tickler, (e) the collection tickler (f) the journal, (g) the depositors ledger, and (h) the general ledger. The tellers' daily proof sheets, the ticklers, remittance register and the depositors ledger are usually loose-leaf; the general proof sheet, registers, journal and general ledger are usually bound volumes. The journal is used only for opening, adjusting and closing entries.

§ 74. **Teller's Daily Proof Sheet.** The object of this sheet is to provide a record of the transactions performed by each teller during the day. It is arranged to provide for (a) the cash on the teller's counter at the beginning of the day, (b) the transactions completed by the teller during the day, (c) the distribution of cash items to other tellers or departments for collection, (d) the cash on the teller's counter at the close of the day, and (e) the teller's proof of his work for the day. The teller records the transactions as they occur in the columns at the top of the teller's proof sheet. Where a large volume of business is performed, the record in these columns may be made by an assistant and contain totals only which are transferred from adding machine lists. At the close of the day the columns are footed and the totals carried to the lines at the bottom of the proof sheet. The difference between the total cash (money and cash items) received by a teller and the total cash (money and cash items) given other tellers is the money (currency and coins) remaining on the teller's counter at the close of the day. With the exception of the transit teller, all cash items received by a teller are passed to the bookkeeping department or the transit teller. Cash items received by the transit teller from the tellers and other banks are sent to correspondent banks for collection. Illustrations Nos. 28-33 shows the form of teller's proof sheet used in the practice set which accompanies this text. The form used by each teller is the same, because many of the tellers perform transactions of the same nature. The application of each sheet, as defined in the foregoing, to the work of each teller is given in the explanation in connection with the illustration.

§ 75. **The General Proof Sheet.** The object of this sheet is to provide a record of the transactions completed by all the tellers during the day. It should be arranged to provide for (a) the cash on hand at the beginning of the day; (b) the cash receipts, with the names of the accounts credited, (c) the cash payments, with the names of the accounts debited, (d) the cash on hand at the close of the day, (e) the cash balance, that is, the actual cash in the vault at the close of the day, (f) the cash on the counter of each teller at the close of the day, and (g) the cash "make-up" at the close of the day. Illustration No. 34 shows the form of general proof sheet used in the practice set which accompanies this text. The information in the illustration is obtained from the various tellers' proof sheets, Illustrations Nos. 28-33. The application of this sheet to the foregoing definition is given in the explanation in connection with the illustration.

Receiving Teller's Daily Proof Sheet at Close of Business Dec. 10, 192

Cash Dr.

Cash Cr.

Deposits 1		Transit Items 2		Chem. Nat'l Bank 3		Corn Exc. Bank 4		Transit Items 45		Chem. Nat'l Bank 46		Corn Exc. Bank 47		M. N. Bank Cks. 48	
100								165						67	50
413	10							42	50					33	
215								39						210	10
704	50							423						102	50
747	50							150						16	50
331	50							10						429	60
593	75							87	50						
3105	35							413	25						
								324							
								1284	25						
Loans and Dis. 5		Cert. of Deposit 6		Cashier's Checks 7		Coll. and Exchange 8		Loans and Dis. 49		Cert. of Deposit 50		Cashier's Checks 51		Int. and Dis. 52	
Int. and Dis. 9		Clearing House 10		Sundry Accounts 11				Clearing House 53		Fed. Reserve Bk. 54		Sundry Accounts 55			
				Name of Account		Amount						Name of Account		Amount	
								101							
								33							
								50							
								27	50						
								110							
								321	50						
Credit Totals				Cash Totals				Debit Totals							
Balance (morning).....13	1000			In Vault.....31				Transit Items.....57	1284	25					
Deposits .....14	3105	35		Gold.....32				Chem. Nat'l Bank .....58							
Transit Items.....15				Silver.....33				Corn Exc. Nat'l Bank...59							
Chem. Nat'l Bank .....16				Currency.....34				Deposits .....60	429	60					
Corn Exc. Nat'l Bank...17				Nickels and Cents....35				Loans and Discounts...61							
Loans and Discounts...18				Total in Vault.....36				Cert. of Deposit.....62							
Cert. of Deposit .....19				Counter.....37				Cashier's Checks.....63							
Cashier's Checks.....20				Gold.....38				Int. and Disc.....64							
Coll. and Exchange....21				Silver.....39				Clear. House.....65	321	50					
Int. and Discount.....22				Currency.....40	2070			Fed. Res. Bk.....66							
Clearing House .....23				Nickels and Cents....41				.....67							
.....24				Cash Items.....42				.....68							
.....25				.....43				.....69							
.....26				Total Cash.....44	2070	-		.....70							
.....27								.....71							
Total Credits.....28	4105	35						Total Debits.....72	2035	35					
Total Debits.....29	2035	35		<b>PROOF</b>											
Balance (evening).....30	2070	-		The difference between the "Total Credits" and "Total Debits" (line 30), should be the same as the "Total Cash" (line 44).											

Illustration No. 28. Receiving Teller's Daily Proof Sheet.

EXPLANATION: The balance at the beginning of the day is entered on line 13, and the deposits accepted by the receiving teller during the day in column 1. The distribution of the cash items to the other tellers for collection is shown by the entries in columns 45, 48 and 53. The entry on line 40 is the currency on the teller's counter at the close of the day. The teller's proof is made from the entries in the "Credit Totals" and the "Debit Totals" columns. The entry on line 14 is the total of column 1, on line 57 the total of column 45, on line 60 the total of column 48, and on line 65 the total of column 53. The currency on his counter is shown on lines 30 and 44.



*Exchange* Teller's Daily Proof Sheet at Close of Business Dec. 10, 192

Cash Dr.

Cash Cr.

Deposits 1		Transit Items 2		Chem. Nat'l Bank 3		Corn Exc. Bank 4		Transit Items 45		Chem. Nat'l Bank 46		Corn Exc. Bank 47		M. N. Bank Cks. 48	
				365		275		275	30					250	
								365	35					500	
								640	65					50	
														800	-
Loans and Dis. 5		Cert. of Deposit 6		Cashier's Checks 7		Coll. and Exchange 8		Loans and Dis. 49		Cert. of Deposit 50		Cashier's Checks 51		Int. and Dis. 52	
		250		50			30								
		500		140	10		35								
		750		190	10		65								
Int. and Dis. 9		Clearing House 10		Sundry Accounts 11				Clearing House 53		Fed. Reserve Bk. 54		Sundry Accounts 55			
				Name of Account		Amount		140	10			Name of Account		Amount	
<b>Credit Totals</b>				<b>Cash Totals</b>				<b>Debit Totals</b>							
Balance (morning).....13	1000			In Vault.....31				Transit Items.....57	640	65					
Deposits.....14				Gold.....32				Chem. Nat'l Bank.....58							
Transit Items.....15				Silver.....33				Corn Exc. Nat'l Bank...59							
Chem. Nat'l Bank.....16	365			Currency.....34				Deposits.....60	800						
Corn Exc. Nat'l Bank...17	275			Nickels and Cents....35				Loans and Discounts...61							
Loans and Discounts....18				Total in Vault.....36				Cert. of Deposit.....62							
Cert. of Deposit.....19	750			Counter.....37				Cashier's Checks.....63							
Cashier's Checks.....20	190	10		Gold.....38				Int. and Disc.....64							
Coll. and Exchange.....21			65	Silver.....39				Clear. House.....65	140	10					
Int. and Discount.....22				Currency.....40	1000			Fed. Res. Bk.....66							
Clearing House.....23				Nickels and Cents....41				.....67							
.....24				Cash Items.....42				.....68							
.....25				.....43				.....69							
.....26				Total Cash.....44	1000	-		.....70							
.....27								.....71							
Total Credits.....28	2580	75		<b>PROOF</b>				Total Debits.....72	1580	75					
Total Debits.....29	1580	75		The difference between the "Total Credits" and "Total Debits" (line 30) should be the same as the "Total Cash" (line 44).											
Balance (evening).....30	1000	-													

Illustration No. 29. Exchange Teller's Daily Proof Sheet.

EXPLANATION: The cash balance at the beginning of the day is entered on line 13. The entries in columns 3, 4, 6, 7 and 8 are the transactions completed by the teller during the day. The entries in columns 45, 48 and 53 show the distribution of the cash items to the other departments for collection. The entry on line 40 is the currency on the teller's counter at the close of the day. The proof is made from the entries in the "Credit Totals" column and the "Debit Totals" column. The difference between the total cash items received (line 28) and the total cash items distributed (line 72) equals the cash on the teller's counter (line 40).

*Loans & Disc.* Teller's Daily Proof Sheet at Close of Business Dec. 10, 192

Cash Dr.

Cash Cr.

Deposits 1		Transit Items 2		Chem. Nat'l Bank 3		Corn Exc. Bank 4		Transit Items 45		Chem. Nat'l Bank 46		Corn Exc. Bank 47		M. N. Bank Cks. 48	
5016	70													3552	50
990														757	50
600	17													4310	-
3000															
9606	87														
Loans and Dis. 5		Cert. of Deposit 6		Cashier's Checks 7		Coll. and Exchange 8		Loans and Dis. 49		Cert. of Deposit 50		Cashier's Checks 51		Int. and Dis. 52	
3500								5000						100	
750								1000						9	
4250								600						109	
								3000							
								2000							
								11600							
Int. and Dis. 9		Clearing House 10		Sundry Accounts 11				Clearing House 53		Fed. Reserve Bk. 54		Sundry Accounts 55			
83	30			Name of Account		Amount						Name of Account		Amount	
10															
8	83														
52	50														
7	50														
162	13														
Credit Totals				Cash Totals				Debit Totals							
Balance (morning).....	13	3000		In Vault.....	31			Transit Items.....	57						
Deposits .....	14	9606	87	Gold.....	32			Chem. Nat'l Bank.....	58						
Transit Items.....	15			Silver.....	33			Corn Exc. Nat'l Bank...59							
Chem. Nat'l Bank .....	16			Currency.....	34			Deposits .....	60	4310					
Corn Exc. Nat'l Bank...17				Nickels and Cents....35				Loans and Discounts...61	11600						
Loans and Discounts ....18		4250		Total in Vault.....36				Cert. of Deposit.....62							
Cert. of Deposit .....	19			Counter.....	37			Cashier's Checks.....63							
Cashier's Checks.....	20			Gold.....	38			Int. and Disc.....64		109					
Coll. and Exchange.....21				Silver.....	39			Clear. House.....65							
Int. and Discount.....22		162	13	Currency.....	40	1000		Fed. Res. Bk.....66							
Clearing House .....	23			Nickels and Cents....41				.....67							
.....24				Cash Items.....	42			.....68							
.....25				.....43				.....69							
.....26				.....44				.....70							
.....27				Total Cash.....	44	1000	-	.....71							
Total Credits.....	28	17019		<b>PROOF</b>				Total Debits.....	72	16019	-				
Total Debits.....	29	16019		The difference between the "Total Credits" and "Total Debits" (line 30), should be the same as the "Total Cash" (line 44).											
Balance (evening).....	30	1000	-												

Illustration No. 30. Loans and Discounts Teller's Daily Proof Sheet

EXPLANATION: The cash on the teller's counter at the beginning of the day is entered on line 13. The entries in columns 1, 5, 9, 48, 49 and 52 show the transactions completed by the teller during the day. The work of this teller is different from that of the receiving and exchange tellers because he accepts loans and discounts, also cash in payment for these when they mature. His entries will include columns on both sides of the center line because of the interest and discount on the notes. The entries in column 48 show the distribution of cash items received during the day. The entry on line 40 is the currency on the teller's counter at the close of the day.



*Collection* Teller's Daily Proof Sheet at Close of Business Dec. 10, 192

Cash Dr.

Cash Cr.

Deposits 1		Transit Items 2		Chem. Nat'l Bank 3		Corn Exc. Bank 4		Transit Items 45		Chem. Nat'l Bank 46		Corn Exc. Bank 47		M. N. Bank Cks. 48	
50														50	50
139	65													140	
189	65													190	50
Loans and Dis. 5		Cert. of Deposit 6		Cashier's Checks 7		Coll. and Exchange 8		Loans and Dis. 49		Cert. of Deposit 50		Cashier's Checks 51		Int. and Dis. 52	
						50									
						35									
						85									
Int. and Dis. 9		Clearing House 10		Sundry Accounts 11				Clearing House 53		Fed. Reserve Bk. 54		Sundry Accounts 55			
				Name of Account		Amount						Name of Account		Amount	
Credit Totals				Cash Totals				Debit Totals							
Balance (morning).....13	500			In Vault.....31				Transit Items.....57							
Deposits.....14	189	65		Gold.....32				Chem. Nat'l Bank.....58							
Transit Items.....15				Silver.....33				Corn Exc. Nat'l Bank...59							
Chem. Nat'l Bank.....16				Currency.....34				Deposits.....60					190	50	
Corn Exc. Nat'l Bank...17				Nickels and Cents....35				Loans and Discounts...61							
Loans and Discounts...18				Total in Vault.....36				Cert. of Deposit.....62							
Cert. of Deposit.....19				Counter.....37				Cashier's Checks.....63							
Cashier's Checks.....20				Gold.....38				Int. and Disc.....64							
Coll. and Exchange.....21			85	Silver.....39				Clear. House.....65							
Int. and Discount.....22				Currency.....40		500		Fed. Res. Bk.....66							
Clearing House.....23				Nickels and Cents....41				.....67							
.....24				Cash Items.....42				.....68							
.....25				.....43				.....69							
.....26				.....44				.....70							
.....27				Total Cash.....44		500	-	.....71							
Total Credits.....28	690	50		<b>PROOF</b>				Total Debits.....72					190	50	
Total Debits.....29	190	50		The difference between the "Total Credits" and "Total Debits" (line 30), should be the same as the "Total Cash" (line 44).											
Balance (evening).....30	500	-													

Illustration No. 31. Collection Teller's Daily Proof Sheet.

EXPLANATION: The cash on the teller's counter at the beginning of the day is entered on line 13. The entries in columns 1 and 8 show the collections made during the day, and the entries in column 48 show the distribution of cash items received. The entry on line 40 is the currency on the teller's counter at the close of the day. The total cash items distributed (line 72) deducted from the total cash and cash items received (line 28) gives the cash on hand (line 40). The collection teller usually receives checks payable by his bank or currency in payment for the paper which he holds. Checks payable by other banks should be certified.

*Transit* Teller's Daily Proof Sheet at Close of Business Dec. 10, 192

Cash Dr.

Cash Cr.

Deposits 1		Transit Items 2		Chem. Nat'l Bank 3		Corn Exc. Bank 4		Transit Items 45		Chem. Nat'l Bank 46		Corn Exc. Bank 47		M. N. Bank Cks. 48	
		1284	25							150		42	50		
		640	65							10		39			
										87	50	423			
		1924	90							247	50	324			
												365	35		
												1193	85		
<hr/>															
Loans and Dis. 5		Cert. of Deposit 6		Cashier's Checks 7		Coll. and Exchange 8		Loans and Dis. 49		Cert. of Deposit 50		Cashier's Checks 51		Int. and Dis. 52	
<hr/>															
Int. and Dis. 9		Clearing House 10		Sundry Accounts 11				Clearing House 53		Fed. Reserve Bk. 54		Sundry Accounts 55			
				Name of Account		Amount						Name of Account		Amount	
										165					
										43	25				
										275	30				
										483	55				
<hr/>															
Credit Totals				Cash Totals				Debit Totals							
Balance (morning).....13				In Vault.....31				Transit Items.....57							
Deposits .....14				Gold.....32				Chem. Nat'l Bank .....58		247	50				
Transit Items.....15	1924	90		Silver.....33				Corn Exc. Nat'l Bank...59		1193	85				
Chem. Nat'l Bank .....16				Currency.....34				Deposits .....60							
Corn Exc. Nat'l Bank...17				Nickels and Cents....35				Loans and Discounts...61							
Loans and Discounts ....18				Total in Vault.....36				Cert. of Deposit.....62							
Cert. of Deposit .....19				Counter.....37				Cashier's Checks.....63							
Cashier's Checks.....20				Gold.....38				Int. and Disc.....64							
Coll. and Exchange.....21				Silver.....39				Clear. House.....65							
Int. and Discount.....22				Currency.....40				Fed. Res. Bk.....66		483	55				
Clearing House .....23				Nickels and Cents....41				.....67							
.....24				Cash Items.....42				.....68							
.....25				.....43				.....69							
.....26				.....44				.....70							
.....27				Total Cash.....44				.....71							
Total Credits.....28	1924	90						Total Debits.....72		1924	90				
Total Debits.....29	1924	90		<b>PROOF</b>											
Balance (evening).....30				The difference between the "Total Credits" and "Total Debits" (line 30), should be the same as the "Total Cash" (line 44).											

Illustration No. 32. Transit Teller's Daily Proof Sheet.

EXPLANATION: The transit teller collects cash items which come to him from correspondent banks or the other departments of the bank, hence he needs no cash on his counter. The two entries in column 2 show the cash items received during the day. The entries in columns 46, 47 and 54 show the distribution of these cash items. The transit teller knows his work is correct when the total cash items sent equals the total cash items received. No letters of advice containing cash items are mailed by the transit teller until all tellers who received cash items during the day have proved the correctness of their work and the transit teller has proved his work.



*Tayna* Teller's Daily Proof Sheet at Close of Business *Dec. 10, 192*

Cash Dr.

Cash Cr.

Deposits 1		Transit Items 2		Chem. Nat'l Bank 3		Corn Exc. Bank 4		Transit Items 45		Chem. Nat'l Bank 46		Corn Exc. Bank 47		M. N. Bank Cks. 48	
														150	
														10	
														20	
														500	
														5	
														685	-
Loans and Dis. 5		Cert. of Deposit 6		Cashier's Checks 7		Coll. and Exchange 8		Loans and Dis. 49		Cert. of Deposit 50		Cashier's Checks 51		Int. and Dis. 52	
Int. and Dis. 9		Clearing House 10		Sundry Accounts 11				Clearing House 53		Fed. Reserve Bk. 54		Sundry Accounts 55			
		461	60	Name of Account		Amount						Name of Account		Amount	
Credit Totals				Cash Totals				Debit Totals							
Balance (morning) Counter	13	1815		In Vault	31			Transit Items	57						
Vault	13	35135		Gold	32	5100		Chem. Nat'l Bank	58						
Deposits	14			Silver	33	6250	80	Corn Exc. Nat'l Bank	59						
Transit Items	15			Currency	34	23304		Deposits	60	685					
Chem. Nat'l Bank	16			Nickels and Cents	35	1180	20	Loans and Discounts	61						
Corn Exc. Nat'l Bank	17			Total in Vault	36	35135		Cert. of Deposit	62						
Loans and Discounts	18			Counter	37			Cashier's Checks	63						
Cert. of Deposit	19			Gold	38			Int. and Disc.	64						
Cashier's Checks	20			Silver	39			Clear. House	65						
Coll. and Exchange	21			Currency	40	1130		Fed. Res. Bk.	66						
Int. and Discount	22			Nickels and Cents	41				67						
Clearing House	23	461	60	Cash Items	42	461	60		68						
	24				43				69						
	25								70						
	26								71						
	27								72	685					
Total Credits	28	37411	60	Total Cash	44	36726	60	Total Debits							
Total Debits	29	685		<b>PROOF</b>											
Balance (evening)	30	36726	60	The difference between the "Total Credits" and "Total Debits" (line 30) should be the same as the "Total Cash" (line 44).											

Illustration No. 33. Paying Teller's Daily Proof Sheet.

EXPLANATION: The paying teller is responsible for all the cash in the bank, hence the cash on his counter and the total of that in the vault are entered on line 13 in separate amounts. The paying teller pays cash, hence will not receive any cash items except in exchange for cash. The entries in column 48 show the distribution of the cash items on which he has paid cash during the day. The cash in the vault at the close of the day is entered on lines 32, 33, 34, 35 and 36; the currency on his counter is entered on line 40. The clearing house checks are held as cash items, hence the amount is entered in column 10 and on line 42.

## MERCHANTS NATIONAL BANK

GENERAL PROOF SHEET *Dec. 10,* 192

ACCOUNT	No.	Receiving Teller	Exchange Teller	Loans & Dis. Teller	Collection Teller	Transit Teller	Paying Teller	Total	L.F.
<b>CREDITS</b>									
Deposits.....	14	3105 35		9606 87	189 65			12901 87	
Transit Items.....	15					1924 90		1924 90	
Chemical National Bank.....	16		36 5					36 5	
Corn Exchange National Bank.....	17		27 5					27 5	
Loans and Discounts.....	18			42 50				42 50	
Certificates of Deposit.....	19		7 50					7 50	
Cashier's Checks.....	20		190 10					190 10	
Collection and Exchange.....	21		6 5		8 5			1 50	
Interest and Discount.....	22			162 13				162 13	
Clearing House.....	23						461 60	461 60	
.....	24								
.....	25								
.....	26								
.....	27								
TOTAL CREDITS (Cash Dr.).....		3105 35	1580 75	14019	190 50	1924 90	461 60	21282 10	
Cash Forwarded.....	13	1000	1000	3000	500		369 50	424 50	
TOTALS.....	28	4105 35	2580 75	17019	690 50	1924 90	3741 60	63732 10	
<b>DEBITS</b>									
Transit Items.....	57	1284 25	640 65					1924 90	
Chemical National Bank.....	58					247 50		247 50	
Corn Exchange National Bank.....	59					1193 85		1193 85	
Deposits.....	60	429 60	800	4310	190 50		68 5	6415 10	
Loans and Discounts.....	61			11600				11600	
Certificates of Deposit.....	62								
Cashier's Checks.....	63								
Interest and Discount.....	64			109				109	
Clearing House.....	65	321 50	140 10					461 60	
Federal Reserve Bank.....	66					483 55		483 55	
.....	67								
.....	68								
.....	69								
.....	70								
.....	71								
TOTAL DEBITS (Cash Cr.).....	72	2035 35	1580 75	16019	190 50	1924 90	68 5	22435 50	
Cash on Hand.....	30	2070	1000	1000	500		36726 60	41296 60	
TOTALS.....		4105 35	2580 75	17019	690 50	1924 90	3741 60	63732 10	

## CASH "MAKE-UP"

TELLERS	Gold	Silver	Currency	Nickels and Cents	Cash Items	Total
Receiving.....			2070			2070
Exchange.....			1000			1000
Loans and Discount.....			1000			1000
Collection.....			500			500
Transit.....						
Paying.....			1130		461 60	1591 60
Vault.....	5100	6250 80	23304	480 20		35135
TOTALS.....	5100	6250 80	29004	480 20	461 60	41296 60

Illustration No. 34. General Proof Sheet.

EXPLANATION: The names of the accounts are written at the left and are indicated by the same number as on the tellers' proof sheets. A column is provided for the transactions performed by each teller. The information on the general proof sheet is obtained from the transactions recorded by each teller (Illustrations 28-33). The entries on lines 14-27 show cash receipts and correspond to the debit side of a cash book; the entries on lines 57-71 show cash payments and correspond to the credit side of a cash book. The information in the cash "make-up" is obtained from the tellers' proof sheets and a vault slip provided by the vault clerk.



§ 76. **Bank Drafts Register.** The purpose of this register is to provide a record for the exchange issued on correspondent banks. The record should show the date, number, payee, purchaser, and amount. Columns should be provided so that all the information in connection with each draft may be recorded on one line. Each draft is recorded before it is delivered to the purchaser; when it has been paid and the canceled draft returned, the date of payment is entered in the "Date Paid" column. A separate register should be provided for the drafts issued on each correspondent bank. The exchange teller reports on his daily proof sheet the drafts issued and paid during the day; this is entered on the general proof sheet and posted to the correspondent banks' accounts in the general ledger.

NEW YORK DRAFT REGISTER

Date 19	Payable to Order of	No.	Amount	✓	Daily Totals	Ex- change	Purchaser	Date Paid
Dec 9	Graf Bros	636	312 90			35	Eldon Fuller	
	Fashion Publicity Co.	637	54			25	John Clarkson	
	Fisher-Morton Co.	638	523 25		890 15	50	Kenneth Ranney	
10	Fay Barnett	639	365		365	35	Fay Barnett	

Illustration No. 35. New York Drafts Register.

EXPLANATION: The entry on each line shows the record of a bank draft issued. The date of payment is not entered in the "Date Paid" column until the canceled draft has been returned to the bank.

§ 77. **Certified Checks Register.** The purpose of this book is to provide a record for the checks certified by the cashier or other authorized official. The record for each check should show the date of the check, the maker, payee, number, and amount. Columns should be provided for this information so that the complete record of each check may be made on one line; an additional column should be provided for the date the check is paid. The record in this book also includes a report to the depositor's bookkeeper of the charge he is to make against the depositor's account, because the bank has guaranteed payment and the check must be charged to the depositor, otherwise he might withdraw the funds on deposit before the check is returned to the bank for payment. All the facts in regard to the check are entered in the register at the time it is

(Continued on page 52)

CERTIFIED CHECK REGISTER

Date 19	Drawn By	Payable To	No.	Amount	✓	Daily Totals	Date Paid
Dec 7	Milton Foster	Homer Cain	65	50			Dec 31 19
	Malcolm Finley	Paul Andres	66	125			
	Henry J. Yost	Irvine Co.	67	137 50		312 50	Dec 31 19
20	E. Scott	Bowers Realty Co.	68	5000			
	Rowley Drug Co.	Brunswick Drug Co.	69	1500		6500	

Illustration No. 36. Certified Checks Register.

EXPLANATION: The entry on each line shows the complete record of a certified check, including the date certified and the date paid; the date paid is not entered until the bank has paid the check.

certified; when the check is returned to the bank, the date of payment is entered in the register. The exchange teller reports the checks certified and the certified checks paid each day on his proof sheet; this information is recorded on the general proof sheet and posted to the Certified Checks account in the general ledger.

§ 78. **Cashier's Checks Register.** The purpose of this book is to provide a record for the cashier's checks issued by the cashier. This record includes the date of issue, payee, purchaser, number, and amount. Columns should be provided for this information so that the complete record of each check may be made on one line; an additional column should be provided for the date the cashier's check is paid by the bank. The record in the cashier's checks register is made after the check is issued and before it is given to the purchaser. The exchange teller reports the total cashier's checks issued and paid each day on his daily proof sheet; this information is recorded on the general proof sheet and posted to the Cashier's Checks account in the general ledger.

### CASHIER'S CHECK REGISTER

Date 19	Payable to Order of	By Whom Purchased	No	Amount	✓	Daily Totals	Date Paid
Dec 9	Samuel Millen	Philip Taylor	309	160			Dec 31 19
	Knox Finley	Annat Boyd, Secy	310	200			Dec 31 19
	Harold King	Tubbs Transfer Co.	311	305			Dec 31 19
	Worth Stedman	John H. Donan	312	94 25		759 25	
13	Geo. Antoine	Westn. Marble Co	313	50			
	Carl Lewis	A. G. Flagg	314	140 10		190 10	

Illustration No. 37. Cashier's Checks Register.

EXPLANATION: Each line contains a complete record of a cashier's check. The entry in the last column at the right is not made until the check has been paid by the bank.

§ 79. **Certificates of Deposit Register.** The purpose of this book is to provide a record for each certificate of deposit issued by the bank. This record should show the date, name of the one to whom issued, name of the one

(Continued on page 53)

### CERTIFICATE OF DEPOSIT REGISTER

Date 19	To Whom Issued	Deposited By	No	Amount	✓	Daily Totals	Time	Rate	Date Paid
July 1	John Clark	Wayne Clark	131	500			6 mos	4 1/2%	Dec 31 19
	Ruth Lewis	Mrs M. Lewis	132	100			6 mos	4 1/2%	
	Mary Kelly	T. B. Kelly	133	200			6 mos	4 1/2%	
	Arden Long	Arden Long	134	900			6 mos	4 1/2%	
	Violet Post	Violet Post	135	1000		4500	6 mos	4 1/2%	
Dec 10	Roland Smith	Roland Smith	136	250			6 mos	4 1/2%	
	Thomas Doerr	Thomas Doerr	137	500		750	6 mos	4 1/2%	

Illustration No. 38. Certificates of Deposit Register.

EXPLANATION: The entry on each line shows the complete record of a certificate of deposit. The information in the "Date Paid" column is not entered until the certificate is paid.



who made the deposit, number, amount, time specified for interest, and rate of interest. Columns should be provided so that a complete record may be made on one line; an additional column should be provided for the date of payment. The record is made after the certificate of deposit has been written, but before it is given to the purchaser; the date of payment is not entered until the certificate has been paid. The exchange teller reports the certificates of deposit issued and paid, together with the interest on those paid, at the close of each day; this information is recorded on the general proof sheet and posted to the Certificates of Deposit account in the general ledger.

§ 80. **Loans and Discounts Register.** The purpose of this book is to provide a record for the notes, drafts, trade acceptances, and other commercial paper received by the bank as evidence of loans. The record should show the date of the paper, number given the loan, name of the one who is to pay it, the last endorser, where payable, the time, due date, rate of interest, number of days for which it is discounted, face of the paper, interest, discount, proceeds, and account credited for the proceeds. Columns should be provided so that a complete record of each paper may be made on one line; additional columns should be provided for the "Date Paid" and "Remarks." Full information in regard to each paper is recorded at the time it is received, and the date of payment entered when it has been collected. Special comments in regard to the paper may be written in the "Remarks" column (see Illustration 40 on pages 54 and 55.) The note teller in charge of the loans and discounts department reports on his daily proof sheet the loans made and collected during the day, also the interest and discount involved. This information is transferred to the general proof sheet and posted to the Loans and Discounts, and Interest and Discount accounts.

§ 81. **Loans and Discounts Tickler.** The purpose of this book is to provide a record under the date due for the notes, drafts, trade acceptances, and other commercial paper which have been discounted or on which loans have been made. The information in connection with each paper should show the name of the one who is to pay it, his address, register number, amount to be collected (which is the face of the paper plus the interest, if it is interest-bearing), the date due, and the date paid. Columns are provided so that all the information may be entered on one line. The record in the tickler should be made at the same time as the record in the register; this includes all paper except that payable at another bank. Paper payable at another bank is not entered in the tickler because it will be sent to the bank at which it is payable for collection, hence the exact date of collection is not known. The record in the tickler should be complete enough to provide all the information necessary for sending notices of the due date to those who are to make payment.

### MERCHANTS NATIONAL BANK

Loans and Discounts Tickler \_\_\_\_\_ December 10 \_\_\_\_\_ 192 \_\_\_\_\_

Date of Paper	Reg. No.	PAYER (Maker or Drawee)	ADDRESS	Face of Paper		Interest		Amount to be Collected		REMARKS
Sep. 11	517	Griffith Lbr. Co.	1022 E. 4th St.	3500		52	50	3552	50	
Oct. 28	520	Cope Electric Co.	306 N. Sycamore	750		7	50	757	50	

Illustration No. 39. Loans and Discounts Tickler.

EXPLANATION: The information on each line shows a record of one note, draft or trade acceptance. All the entries show the commercial paper due on the date for which the tickler sheet was prepared.

## LOANS AND DISCOUNT

Date 19	Our No.	Payer Maker or Drawee	Drawer, Endorser or Collateral	Where Payable	Where Sent
Aug. 31	516	Rochm-Sylvester Co		Our Bank	
Sept. 11	517	Griffith Lbr. Co.		" "	
	518	Overland Mfg Co.		" "	
Oct. 8	519	Chandler Turn Co	Fisher & Doyle	" "	
	520	Cope Elec. Co	D. Faul & Co	" "	
Nov. 30	521	Sam Steins Statytor	Thompson Printing Co.	" "	
Dec. 10	522	L. Oulp-Jno. K. Wald	Overland Mfg Co.	" "	
	523	Ellis & Clark	Korton Spurg Turn Co.	" "	
	524	W. T. Ingram	Vincent Mfg. Co	" "	
	525	Bakers Bakery		" "	
	526	James Finley		" "	

Illustration No. 40. Left Page of Loans and Discount Register.

## COLLECTION

Date Rec. 19-	Our No	Payer Maker or Drawee	Endorser Payee or Drawer	Where Payable	Where Sent
Dec 2	244	E. Scott	Miles Shoe Co	Our Bank	
	245	Earl Jesse	Cope Electric Co	" "	
3	246	Cash Grocery	Donald Williams	" "	
4	247	Frank Kellogg	Excelsior Dairy Co	" "	
9	248	Simmons Hdw. Co.	Mayo Mich Works	First Natl, Chgo	Corn Et Natl, Chgo
	249	Johns-Baker Co.	Griffith Lumber Co	Halstead Natl, Chgo	" " " "
10	250	F. M. Woolworth	Vincent Mfg. Co.	Our Bank	
	251	Princess Theatre	Vincent Mfg Co.	" "	
	252	E. Scott	B. Hayward	" "	

Illustration No. 41. Left Page of Collection Register.

§ 82. **Collection Register.** The purpose of this book is to provide a record for the notes, drafts, trade acceptances and other commercial paper left with the bank for collection. This record should show the date the paper was received by the bank, the number of the collection, name of the maker, name of the last endorser, where payable, date of the paper, time, due date, face, collection charges, and the disposition to be made of the proceeds. Columns should be provided so that all this information may be recorded on one line; additional columns are provided for the "Date Paid" and "Remarks," (see Illustration No. 41. The commercial paper recorded in this book does not



REGISTER

Date of Paper	Time	Rate	Date Due	Days Disc't	Face of Paper	Interest	Discount	Proceeds	✓	Account Credited	Date Paid	Remarks
19			19		102,031.12	12.50 23	475.78	102,805.57			19	
Aug 31	4mos	6%	Dec 31		5000			5000		Cash	Dec 31	
Sept 11	90ds	6%	Dec 10		3500			3500		Cash	Dec 10	
Sept 20	3mos	6%	Dec 20		5000			5000		Cash	Dec 20	
Oct 2	90ds	-	Dec 31	84	2500		35	2465		Cash Grocery	Dec 31	Renewed by Note #538 \$500 Cash
Oct 11	60ds	6%	Dec 10	43	750	7.50	5.43	752.07		Miles Shoe Co.	Dec 10	
Nov 20	30ds	-	Dec 20	20	1450		4.83	1445.17		Irvine Co.	Dec 20	
Nov 18	4mos	6%	Mar 18	98	5000	100	83.30	5016.70		Overland Mfg Co		
Dec 10	60ds	-	Feb 8	60	1000		10	990		Horton Spur Turn Co.		
Dec 7	90ds	6%	Mar 7	87	600	9	8.83	600.17		Vincent Mfg Co.		
Dec 10	4mos	6%	Apr 10		3000			3000		Bakers Bakery		
Dec 10	90ds	6%	Mar 10		2000			2000		Cash		

Illustration No. 40. Right Page of Loans and Discount Register.

REGISTER

Date of Paper 19	Time	Date Due	Face of Paper	✓	Coll. Charges	Account to be Credited	Date Paid	Remarks
Aug. 31	4mos	Dec 31 19	325		75	Miles Shoe Co	Dec 31	
Oct. 11	60ds	Dec 10 19	50.50		50	Cape Elec Co	Dec 10	
Nov. 20	30ds	Dec 20 19	175		50	Register Pubg Co	Dec 20	
Nov. 30	10ds	Dec 10 19	140		35	Excelsior Dairy Co	Dec 10	
Nov. 30	20ds	Dec 20 19	415.45		50	Mayo Mch. Wks.	Dec 20	
Nov. 30	20ds	Dec 20 19	230		50	Griffith Lumber Co	Dec 20	
Dec. 10	10ds	Dec 20 19	100		50	Vincent Mfg. Co	Dec 20	
Dec. 10	60ds	Feb 8 19	310			" " "		
Nov 1	60ds	Dec 31 19	50		75	" " "	Dec 31	

Illustration No. 41. Right Page of Collection Register.

belong to the bank, hence no entries are made in the accounts until the paper is collected; at that time, the note teller in charge of this department disposes of the proceeds according to the information given in the register.

The collection teller reports on his daily proof sheet the amount of each commercial paper collected, the method of settlement, and the charges for collection. If the proceeds are credited to the account of a depositor, this information is passed to the depositor's bookkeeper for record, and the depositor is notified to call and receive credit in his pass book for the amount. The collection charges are entered on the general proof sheet and posted to the Collection account in the general ledger.

§ 83. **Collection Tickler.** The purpose of this book is to provide a record under the due date for the commercial paper received by the bank for collection. The information in connection with each paper shows the name and address of the maker, register number, amount to be collected, collection charges collected, and the date of the collection. Columns are provided so that all this information may be entered on one line. Commercial paper payable at another bank is not entered in the collection tickler because it will be sent to this bank for collection, hence the exact date of collection is not known.

### MERCHANTS NATIONAL BANK

Collection Tickler December 10 192    

Date of Paper	Reg No.	PAYER (Maker or Drawee)	ADDRESS	Face of Paper		Interest	Amount to be Collected		Collect Chgs	REMARKS
Oct.11	245	Earl Jesse	RR #2, City	50	50		50	50	50	
Nov.30	247	Frank Kellogg	621 Orange Ave.	140			140		55	

Illustration No. 42. Collection Tickler.

EXPLANATION: The information on each line shows a complete record of one note, draft or trade acceptance. All the entries show the commercial paper due on the date for which the tickler sheet was prepared. The collection charges are not entered until the paper has been collected.

§ 84. **Remittance Register.** The purpose of this book is to provide a record for each cash item sent to an out-of-town bank for collection. The record should show the date of the transaction, the maker of the check, the last endorser, the bank on which it is payable, the amount, number and date of the check. Columns should be provided so that full information in regard to each cash item may be recorded on one line. By the use of carbon paper, a part of the information required in this register may be made at the time the letter of advice is prepared; this is shown in Illustration No. 19.

The remittance register is usually made up of loose sheets, which are filed in a binder after the cash items have been recorded and the transit letter section removed. Loose sheets are necessary when the transit letters are prepared on a transit machine. Illustration No. 21.

The transit teller reports on his daily proof sheet the amount of out-of-town cash items received from and sent to correspondent banks. This information is entered on the general proof sheet and posted to the account with each bank in the general ledger.

§ 85. **Depositors Ledger.** The purpose of this ledger is to provide a record for the transactions with depositors. The record in this book is made from the deposit tickets prepared by depositors, credit tickets issued by the loans and discounts and collection departments, and the checks written by the depositors. Each depositor's account should show his balance at the beginning of the day, the date and amount of each deposit made during the day, the date and amount of each check paid by the bank during the day, and his balance at the close of the day. Columns should be provided so that as much of this information as possible may be entered on one line. Illustration No. 43 shows the form of depositors' ledger used in the practice set which accompanies this text.



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*E. Scott**426 French St., City.*

Date		Checks in Detail		Total Checks	Deposits	Balance
<sup>19-</sup> Dec	9	<i>Balance</i>				9 514 13
	10	67 50	500	567 50	100	9 046 63
	20	800	CC-5000	5800		3 246 63
	31	16 40	642		D-1486 25	
		500	7-30			
		375		1763 40		2969 48

Illustration No. 43. Depositors Ledger Account.

EXPLANATION: E. Scott, a depositor whose number in the depositors ledger is 49, has a balance of \$9,514.13 on December 9. On December 10, the bank paid two checks, \$67.50 and \$500.00; total, \$567.50. December 10, Mr. Scott deposited \$100.00. At the close of the day his balance will be ascertained by adding the deposit to the old balance and subtracting the total of the two checks from the result ( $\$9,514.13 + \$100.00 = \$9,614.13 - \$567.50 = \$9,046.63$ ). December 20, two checks were canceled, but no deposits received, hence the new balance at the close of this day will be the difference between the old balance and the total of the two checks. December 31 five checks were paid by the bank, and Mr. Scott received credit for \$1,486.25, the proceeds of a note discounted. His new balance on the 31st is ascertained in the same manner as on the 10th.

§ 86. **Method of Making the Entry.** As the deposit tickets come to the depositors bookkeeper from the tellers, they are arranged alphabetically, and an entry made in a depositor's account for each deposit or the total, if more than one is made during the day. The deposit tickets are filed alphabetically for future reference. As the canceled checks come to the depositors bookkeeper from the various tellers, they are arranged alphabetically. The amount of each check is entered in the "Checks in Detail" column and the total in the "Total Checks" column. The checks are filed alphabetically and retained by the bank until the first of the month, at which time they are given to the customer, together with a statement of his account as it appears in the depositors ledger.

§ 87. **Method of Making the Proof.** The depositors bookkeeper knows that all new balances are extended correctly when the total checks paid during the day deducted from the sum of the balances in the morning, plus the deposits for the day, equals the total of the balances at the close of the day. In other words, the proof of all the balances is made in the same manner as the extension of the balance for one depositor—that is, old balance plus deposits minus checks equals the new balance. The depositors bookkeeper must not only prove the correctness of his additions and subtractions, but must also prove that each deposit and check has been entered correctly; this is proved by the Depositors Ledger Daily Trial Balance. This proof does not detect errors in posting to the wrong account; these are detected by checking, and by complaints received from depositors when the monthly statements are rendered.

§ 88. **The Depositors Ledger—A Subsidiary Ledger.** An account is kept with Deposits in the general ledger. The debits and credits to this ac-

count are made from the entries on the general proof sheet, the information for these being obtained from the tellers' daily proof sheets. Since the deposits and checks entered in the depositors ledger are reported on the tellers' daily proof sheets, it is evident that the balance of the Deposits account in the general ledger will be the same as the total balances due depositors if the work of the depositors bookkeeper is correct. As explained, the depositors bookkeeper proves his work by a Trial Balance; this does not contain a list of debits and credits, but a list of the balances due depositors and the total, which should equal the balance of the Deposits account in the general ledger. The depositors ledger is a subsidiary ledger, because the total of the balances of the various accounts in it must be the same as the balance of the Deposits account in the general ledger.

§ 89. **Arrangement of Accounts in the Depositors Ledger.** The accounts in the depositors' ledger may be arranged alphabetically and according to their activity. If the more active accounts are grouped to themselves in the ledger, much time will be saved in making the proof, because no new balances are necessary for those accounts which have not been affected by deposits or checks during the day.

§ 90. **Depositor's Monthly Statement.** The depositor is requested to leave his pass book with the bank at the close of each month. This is returned to him on the first of the month or as soon thereafter as possible, together with a statement of his account as it appears in the depositors ledger of the bank and the checks which have been paid by the bank during the month. The pass book is ruled and the balance brought down, as in Illustration No. 10. The statement contains a list of the deposits, canceled checks, and the balance, which is the same as that shown in the pass book. The depositor can check the amount of each deposit with the entry in his pass book, and the amount of each canceled check with the entry on his check stub. The depositor reconciles his balance with that shown by the bank by deducting the total of

any checks issued, but not yet paid by the bank from the bank balance. Illustration No. 44 shows the statement rendered for the account of E. Scott in Illustration No. 43.

MONTHLY STATEMENT			
December 31 192__			
E. Scott			
IN ACCOUNT WITH			
MERCHANTS NATIONAL BANK			
OF CENTERVILLE			
EXPLANATION OF CHARACTERS: ND—Note Discounted. CL—Collection. CC—Certified Check. EC—Error Corrected. LST—Total of several checks. OD—Overdraft. Please examine at once. If no error is reported in ten days the account will be considered correct.			
Date	Checks in Detail		Deposits
	<i>Balance Brought Forw.</i>		Dec. 9 9514.13
Dec. 10	67.50	500.00	Dec. 10 100.00
20	800.00	CC5000.00	
31	16.40	642.00	
	500.00	230.00	
	375.00		Dec. 31 ND1486.25
	Balance		2969.48

EXPLANATION: This statement has the same meaning to the depositor of a bank as the monthly statement rendered by a grocer to one of his customers, except that the bank's statement shows the amount the depositor has remaining in the bank, while the grocer's statement shows the amount the customer owes for merchandise purchased during the month. The facts for the bank's statement are obtained from the entries in the depositors ledger (Illustration No. 43.)

Illustration No. 44. Statement of Account with a Depositor.





tance letter retained until the close of the day when the proof is made through the proper mechanical operation of the machine. The statement machine is so arranged that all information needed in connection with rendering statements to depositors may be shown on the statement. Full information in regard to the operation of these machines can be obtained from the Burroughs Adding Machine Company.

§ 92. **General Ledger.** The general ledger contains the general accounts necessary in connection with the operation of the bank. The outline of accounts given on page 61 includes the accounts usually found in the general ledger of a bank. Illustration No. 46 shows the ruling of the general ledger used in practice set which accompanies this text. The posting to the general ledger and the extensions of the balances are proved by a Trial Balance. Since the work of each day is recorded on the tellers' daily proof sheets and transferred to a daily general proof sheet, a Trial Balance is taken at the close of each day.

*Loans and Discounts*

Date		Explanation	Debit		Credit	Dr Balance		Cr Balance
<sup>19</sup> Dec	9	O. L. Balance	120	231 12		120	231 12	
	10		11	600	42.50	127	581 12	
	20		7	747 20	64.50	128	878 32	
	31		13	262 44	7.500	134	640 76	

Illustration No. 46. Loans and Discounts Account.

EXPLANATION: The arrangement of the general proof sheet is such that not more than one amount is posted each day to the debit and credit side of an account that may be affected. Columns in the general ledger are so arranged that this posting can be entered on one line. The new balance is obtained by adding a debit posting to a debit balance and subtracting a credit posting, or by adding a credit posting to a credit balance and deducting a debit posting.



OUTLINE OF ACCOUNTS KEPT IN THE BANKING SET

§ 93. The outline below includes all accounts made necessary by recording transactions in the practice set which accompanies this text. These are discussed in §§ 94-127.

Current Assets.....	{	Cash Loans and Discounts United States Bonds Other Bonds Federal Reserve Bank Stock Other Stock Federal Reserve Bank Correspondent Banks Sundry Banks 5% Redemption Fund
Fixed Assets.....	{	Banking House and Lot Real Estate Furniture and Fixtures
Current Liabilities.....	{	Circulation Deposits Cashier's Checks Certificates of Deposit Certified Checks
Capital.....	{	Capital Stock Surplus Undivided Profits Dividend Profit and Loss
Income.....	{	Interest Discount Rediscount Collection Exchange Safety Deposit Rent Profit on Sale of Real Estate Profit on Sale of Bonds
Operating Cost.....	{	General Expenses

### CASH ACCOUNT

§ 94. **The Object of this Account** is to show the total receipts and payments of cash and the cash balance at the close of each day. The receipts and payments in the different departments are recorded in the general cash book (the general bookkeeper's proof sheet), and the total receipts and payments for each day posted to the Cash account. A Cash account is not necessary because the record in the general cash book will show the cash balance at the close of each day.

*Debit this account:*

(1) At the close of each business day,  
with the total cash receipts.

*Credit this account:*

(2) At the close of each business day,  
with the total cash payments.

The balance of this account shows the amount of cash and cash items in the vault at the close of each day; it is shown as a current asset on the Statement of Resources and Liabilities.

### LOANS AND DISCOUNTS ACCOUNT

§ 95. **The Object of this Account** is to show the total value of the notes, drafts and trade acceptances which the bank holds as evidences of loans which it has made. The value shown in connection with each loan is usually the amount stated in the paper. Thus, if the bank should purchase a note in which it was stated that the maker agreed to pay \$1,000.00 on a definite date, this value would be shown in the Loans and Discounts account whether the bank paid more or less for it, or whether it stated in the face that a certain amount of interest should be collected at maturity. The difference between the value of the note or the value of the loan and the amount paid or collected by the bank is shown in an account with Interest or Interest and Discount.

The caption of this account may be "Loans," "Discounts," "Loans and Discounts," or any other name which the officers of the bank may designate.

*Debit this account:*

(1) At the close of each business day,  
with the total amount of loans  
made during the day.

*Credit this account:*

(2) At the close of each business day,  
with the total amount collected  
from paper, the value of which  
was charged to this account.

The balance of this account shows the value of the notes owned by the bank; it is shown as a current asset on the Statement of Resources and Liabilities.

### UNITED STATES BONDS ACCOUNT

§ 96. **The Object of this Account** is to show the par value of United States bonds owned by a national bank and deposited with the Comptroller of Currency as security for circulating notes (currency) issued by the bank.

*Debit this account:*

(1) With the par value of bonds  
when purchased.

*Credit this account:*

(2) With the par value of bonds  
when sold.

The balance of this account shows the par value of United States bonds owned by the bank, purchased for use in securing its circulating notes; it is shown as a current asset on the Statement of Resources and Liabilities.



### OTHER BOND ACCOUNTS

§ 97. **It is the Better Practice** to provide a separate account for each kind of bonds owned by the bank. These may include the various series of United States bonds issued during the World War, United States certificates, postal savings stamps, bonds issued by corporations engaged in a mercantile or manufacturing business, and the various other classes of bonds which are for sale. The nature of the account with each class of bonds is the same as that described in § 96, and the same debits and credits apply. The balance of each bond account is shown as a current asset on the Statement of Resources and Liabilities.

NOTE: One general Bond account may be kept in the same manner as a Notes Receivable account, in which case the detailed record of each purchase and sale would be shown in a bond register, the same as the facts concerning notes and drafts are shown in a notes receivable book.

### FEDERAL RESERVE BANK STOCK ACCOUNT

§ 98. **The Object of this Account** is to show the par value of Federal Reserve Bank stock owned by the bank. All national banks, and those state banks which comply with the conditions imposed by the Federal Reserve Act, are members of the Federal Reserve Bank in their district and, as members, must purchase stock equal in value to 6% of their capital. Each member bank increases or decreases its stock in the Federal Reserve Bank on the basis of the increase or decrease of its own capital.

*Debit this account:*

*Credit this account:*

(1) With the par value of Federal Reserve Bank stock purchased.

(2) With the par value of Federal Reserve Bank stock sold.

The balance of this account shows the par value of the Federal Reserve Bank stock owned by the bank. It is in the nature of a fixed asset because the bank must own it in order to be affiliated with the Federal Reserve Bank system, and it can not be hypothecated for a loan. However, it may be regarded as a current asset as the bank shares in the profit resulting from the operations of the Federal Reserve Bank. For this reason it is usually listed with the current assets on the Statement of Resources and Liabilities.

### OTHER STOCK ACCOUNTS

§ 99. **A Separate Account** should be kept with the stock of any corporation which the bank may purchase. The debits and credits applicable to each stock account would be the same as those described in § 98, except that the bank would have the privilege of selling these stocks or hypothecating them for a loan if it so desired.

### FEDERAL RESERVE BANK ACCOUNT

§ 100. **The Object of this Account** is to show the result of transactions with the Federal Reserve Bank. Each bank which is a member of the Federal Reserve system (§ 5) has an account with the Federal Reserve Bank or branch of this bank in its district. Thus, each member bank in Cleveland, Ohio, and the territory adjacent to Cleveland, operates under the Cleveland Reserve Bank and has an account with it; each bank in Cincinnati, Ohio, and

the territory adjacent to Cincinnati, operates under the branch reserve bank in Cincinnati and has an account with it.

*Debit this account:*

- (1) With the cash or cash items sent to it;
- (2) With the proceeds of notes re-discounted with it;
- (3) With any interest allowed by it.

*Credit this account:*

- (4) With the cash or cash items received from it;
- (5) With the proceeds of notes re-discounted for it;
- (6) With any interest allowed it.

The balance of this account is either a debit or credit, depending on the transactions with the bank. If the difference between the two sides shows a debit balance, this indicates that the reserve bank owes the member bank, and the balance is shown as an asset on the Statement of Resources and Liabilities; if it shows a credit balance, it indicates that the member bank owes the reserve bank, and the balance is shown as a liability on the Statement of Resources and Liabilities.

### CORRESPONDENT BANK ACCOUNT

§ 101. **The Object of this Account** is to show the result of transactions with a correspondent bank. As explained in § 57, a correspondent bank is one with which arrangements have been made for the collection of notes, drafts, trade acceptances, checks and other cash items which are payable in its territory.

The transactions with a correspondent bank are, to a certain extent, the same as those of a member bank with the Federal Reserve Bank, and the debits and credits described in § 100, ¶¶ 1-6, will apply to the transactions with a correspondent bank. Banks which are members of the Federal Reserve system re-discount with Federal reserve banks, hence the transactions described in § 100, ¶ 2 and 5, might not apply to their transactions with correspondent banks. Banks which are not members of the Federal Reserve system might rediscount with correspondent banks, hence their transactions with correspondent banks would be the same as those of member banks with a Federal reserve bank.

The balance of a correspondent bank account is an asset or a liability, and is shown on the Statement of Resources and Liabilities in the same manner as the balance of the Federal Reserve Bank account (§ 100).

### SUNDRY BANKS ACCOUNT

§ 102. **The Object of this Account** is to show the result of transactions with banks other than the Federal Reserve Bank and correspondent banks. As explained in the second paragraph of § 57, cash items payable outside of the territory of a correspondent bank are sent direct to the bank on which they are drawn, for collection and remittance. An account may be opened in the general ledger with each of these banks, or the transactions recorded in an account with "Sundry Banks." Since remittances are to be received for the cash items sent a special bank for collection and the bank may never have another cash item payable by this bank, the Sundry Banks account is used quite extensively. The name of the bank to which the cash item is sent should be indicated in the explanation column of the Sundry Banks account, and when remittance is received, the credit entered on the opposite side of the account on the same line with the debit.

The Sundry Banks account is debited with the amount of each remittance letter accompanying one or more cash items sent for remittance, and credited



with the same amount when remittance is received; any charges for collection are debited to the Collection account.

The balance of this account is listed as an asset on the Statement of Resources and Liabilities in the same manner as that of the Federal Reserve Bank or a correspondent bank account.

### 5% REDEMPTION FUND ACCOUNT

§ 103. **The Object of this Account** is to show the amount deposited with the Comptroller of Currency to redeem the mutilated circulating notes issued by the bank. A national bank is required to deposit this fund in order that the Comptroller of Currency may redeem its mutilated circulating notes.

*Debit this account:*

- (1) With the amount sent to the Comptroller of Currency at the time the bank is organized and its circulating notes authorized, and when additional circulating notes are authorized.

*Credit this account:*

- (2) With the amount of the fund when it is returned by the Comptroller of Currency, or any part of it should the amount of circulating notes be reduced.

The balance of this account shows 5% of the circulating notes authorized for issue by the bank; it is shown as a current asset on the Statement of Resources and Liabilities.

### BANKING HOUSE AND LOT

§ 104. **The Object of this Account** is to show the cost of the lot and building owned by the bank and used by it as a home. The cost of this real estate is determined by the purchase price of the lot and building; the cost of any improvements made necessary by deterioration is an operating cost of the bank.

*Debit this account:*

- (1) With the cost of the lot and building at the time of purchase;  
(2) With the cost of improvements which add to the value.

*Credit this account:*

- (3) With the cost as shown by the debit side when the building and lot are sold.  
(4) With the cost of any part or all of the building if destroyed by fire, water, or other causes.

The balance of this account shows the cost value of the building and lot owned by the bank and occupied by it as a home; it is shown as a fixed asset on the Statement of Resources and Liabilities.

### REAL ESTATE

§ 105. **National Banks** are not allowed to buy real estate except for a home. Very few state banks deal in real estate even though they are permitted to do so by law. As a result of the law and of custom, very few banks own real estate except that in which their business is transacted. Occasionally it may be necessary for a bank to purchase real estate in connection with collecting a loan in order to protect itself against loss. National banks are required to dispose of such real estate within a limited time. State banks usually dispose of it as soon as practical, because the holding of real estate is not a part of the banking business. The nature of all real estate accounts is the same

and the debits and credits described in § 104 will apply to any real estate account. However, real estate purchased by the bank and held subject to sale would be shown on the Statement of Resources and Liabilities before the value of the bank's home, because it is to be sold at an early date.

### FURNITURE AND FIXTURES ACCOUNT

§ 106. **The Object of this Account** is to show the cost value of the fixtures and office equipment purchased by the bank for use in its operation. This consists of desks, typewriters, safes, files, bookcases, chairs, tables, partitions, tellers' cages, counters, etc.

*Debit this account:*

- (1) With the cost price of any furniture and fixtures purchased for use in the bank.

*Credit this account:*

- (2) With the cost price of any furniture and fixtures sold or otherwise disposed of.

The balance of this account shows the cost value of the furniture and fixtures owned by the bank; it is shown as a fixed asset on the Statement of Resources and Liabilities.

§ 107. **Depreciation** on fixed assets, whether it be furniture and fixtures or buildings, may be shown through a reserve account, if desired. This depreciation would be one of the operating expenses of the bank. It is customary with banks to keep the buildings and furniture and fixtures in good condition and charge amounts paid for repairs to operating cost. If a Reserve for Depreciation account is set up, it would be credited with the estimated amount of depreciation at the close of each fiscal period, the proper operating account being debited.

### CAPITAL STOCK ACCOUNT

§ 108. **The Object of this Account** is to show the capital stock authorized by the charter. National banks obtain their charter, or right to do business, from the Comptroller of Currency; state banks, from the state in which they are organized. The capital stock of a bank is represented by shares in the same manner as any other corporation. The par value of each share of stock in a national bank is \$100.00; the par value of each share in a state bank is governed by the law of the state in which the bank is organized.

*Debit this account:*

- (1) With the par value of stock purchased and held in the treasury or retired from the capital stock of the bank.

*Credit this account:*

- (2) With the par value of stock issued at the time of organization or subsequent thereto.

The balance of this account shows the par value of capital stock outstanding by the bank. This may be the same as that authorized by the charter or only a part of it. It is shown as a capital liability on the Statement of Resources and Liabilities.

### SURPLUS ACCOUNT

§ 109. **The Object of this Account** is to show that part of the profit which is set aside as permanent working capital. The profit resulting from the operations of the bank may be all withdrawn by the stockholders unless the



law under which the charter was granted specifies that a certain part of the profit must be retained as operating capital.

*Debit this account:*

- (1) With any amount of the surplus which is taken out for a specific purpose.

*Credit this account:*

- (2) With that part of the profit which is set aside as permanent working capital.

The balance of this account is shown in connection with the Capital Stock on the Statement of Resources and Liabilities; it is that part of the accumulated profits retained by the board of directors as working capital for the bank.

### UNDIVIDED PROFITS ACCOUNT

§ 110. **The Object of this Account** is to show that part of the profit which is retained temporarily as working capital for the bank. At the close of the fiscal period, that part of the profit to be set aside as dividend is transferred from the Profit and Loss account to the Dividend account; that part of the profit to be retained temporarily in the business, to the Undivided Profits account; and that part of the profit to be retained as permanent working capital, to the Surplus account.

The Undivided Profits account is debited with any part of the profit credited to this account when it is set aside as dividend or passed to the Surplus account; it is credited with that part of the profit transferred to it at the close of the fiscal period. The balance is shown in connection with the Capital Stock and Surplus accounts on the Statement of Resources and Liabilities.

### DIVIDEND ACCOUNT

§ 111. **The Object of this Account** is to show that part of the profit which is set aside as dividend for the stockholders.

*Debit this account:*

- (1) With the amount of dividend paid.

*Credit this account:*

- (2) With that part of the profit set aside as dividend.

The balance of this account is a liability as it shows indebtedness to the stockholders. The account will usually balance, because checks are sent each stockholder at the time the dividend is declared. The balance would be shown as a liability on the Statement of Resources and Liabilities.

### PROFIT AND LOSS ACCOUNT

§ 112. **The Object of this Account** is to show the income and operating cost for each fiscal period. It shows the same facts as the Statement of Profit and Loss prepared at the close of each fiscal period. The account is opened only for the purpose of closing the operating and income accounts, and its balance is immediately closed into the Surplus and Undivided Profits or Dividend accounts.

### CIRCULATION ACCOUNT

§ 113. **A National Bank** is permitted by its charter to issue paper money, usually referred to as "circulating notes." These notes are secured by registered United States bonds deposited with the Comptroller of Currency by the

bank. As a rule, each bank issues circulating notes to the full extent permitted by law, and maintains this amount until there is a change in the capital. Since the amount of circulating notes which the bank can issue is determined by its capital, an increase in the capital would permit it to issue additional circulating notes. Banks have the privilege of reducing their circulating notes at any time.

The circulation account shows the value of circulating notes issued at the time the bank is organized, and any increase or decrease in the same.

*Debit this account:*

- (1) With the value of circulating notes withdrawn from circulation by order of the Comptroller of Currency.

*Credit this account:*

- (2) With the value of circulating notes issued by order of the Comptroller of Currency at the time the bank is organized, and with additional circulating notes that may be authorized.

The balance of this account shows the value of circulating notes outstanding. It is shown as a liability on the Statement of Resources and Liabilities because the bank owes the amount to the holders of its circulating notes. This liability is offset by the resource represented by bonds deposited with the Comptroller of Currency.

## DEPOSITS ACCOUNT

§ 114. **The Object of this Account** is to show the total deposits received, the total checks issued by depositors and paid by the bank, and the total balance due depositors at the close of the day. It is a controlling account for the depositors ledger or ledgers. The total balance due depositors, as shown by the balances in the depositors ledger or ledgers, must be the same as the balance of this account.

*Debit this account:*

- (1) At the close of each business day, with the total checks issued by depositors and paid by the bank during the day.

*Credit this account:*

- (2) At the close of each business day, with the total deposits accepted from depositors during the day.

The balance of this account shows the amount due depositors at the close of each business day; it is an obligation of the bank and is listed with the liabilities on the Statement of Resources and Liabilities.

## CASHIER'S CHECKS ACCOUNT

§ 115. **The Object of this Account** is to show the amount of cashier's checks issued and paid and the balance remaining unpaid at the close of each business day. When all the checks issued by the cashier have been paid, this account will balance.

*Debit this account:*

- (1) At the close of each business day, with the total cashier's checks paid during the day.

*Credit this account:*

- (2) At the close of each business day, with the total cashier's checks issued during the day.

The balance of this account is an obligation of the bank and is shown as a liability on the Statement of Resources and Liabilities.



### CERTIFICATES OF DEPOSIT ACCOUNT

§ 116. **The Object of this Account** is to show the amount of certificates of deposit issued and paid and the balance due on certificates of deposit at the close of each business day. When all the certificates of deposit issued by the bank have been paid, this account will balance.

*Debit this account:*

*Credit this account:*

- |   |   |
|---|---|
| (1) At the close of each business day,<br>with the total certificates paid<br>during the day. | (2) At the close of each business day,<br>with the total certificates is-<br>sued during the day. |
|---|---|

The balance of this account shows the amount owed to temporary depositors who have accepted certificates of deposits as evidence of their deposits; it is an obligation of the bank and is listed with the liabilities on the Statement of Resources and Liabilities. The nature of the account is practically the same as that of a deposit, and the balance is usually listed on the Statement of Resources and Liabilities in connection with the Deposits account, but separate from it.

### CERTIFIED CHECKS ACCOUNT

§ 117. **The Object of this Account** is to show the amount of checks certified and paid and the total due on certified checks which have not been paid by the bank. When all certified checks have been paid, this account will balance.

*Debit this account:*

*Credit this account:*

- |   |  |
|---|--|
| (1) At the close of each business day,<br>with the total certified checks<br>paid during the day. | (2) At the close of each business day,<br>with the total checks certified<br>during the day. |
|---|--|

The balance of this account is an obligation of the bank and is listed as a liability on the Statement of Resources and Liabilities.

### INTEREST ACCOUNT

§ 118. **The Object of this Account** is to show the cost of interest paid and the income from interest received. Interest may be paid to depositors on their average monthly balance, to depositors on certificates of deposit, to depositors on savings accounts, and to correspondent banks on their deposits with the bank. Interest is received for the use of money loaned by the bank and from correspondent banks for money deposited with them. The terms "paid" and "received" in connection with interest refer to cash paid for the use of money and cash received for the use of money.

*Debit this account:*

*Credit this account:*

- |   |   |
|---|---|
| (1) With interest cost—that is, with<br>the amount of cash paid others<br>for the use of money. | (2) With interest income—that is,<br>with the amount of cash re-<br>ceived from others for the use<br>of money. |
|---|---|

The balance of this account shows the net income from interest. If desired, separate accounts may be kept with Interest Cost and Interest Income, in which case the balance of the former would show a loss and the latter a profit. When only one account is kept with Interest, its balance will usually be a credit because the principal profit of a bank is the interest received for the use of its

money. The debit side of the Interest account may be shown as a loss and the credit side as a profit, or the balance as a profit, on the Statement of Profit and Loss.

At the close of each fiscal period it is necessary to calculate interest due the bank on interest-bearing notes which have not matured, also the interest on those notes which are not interest-bearing, but on which the interest was deducted when the note was discounted. This calculation will include interest on certificates of deposit, interest due to and from correspondent banks, and interest on deposits, if allowed. The Statement of the Business must show the true condition of the bank at the time the statement is made. Interest owed to the bank, but not shown in the Interest account is an asset and an income; interest owed by the bank, but not shown in the Interest account is a liability and a loss.

### DISCOUNT ACCOUNT

§ 119. **The Object of this Account** is to show the interest cost in connection with notes or other commercial paper rediscounted with the Federal Reserve Bank or other banks. The purpose in keeping this record separate from the Interest account is to show the cost of rediscounts.

*Debit this account:*

- (1) At the close of each business day, with the charges for rediscounting notes during the day.

*Credit this account:*

- (2) At the close of each business day, with credits resulting from prepaying rediscounted paper during the day.

The balance of this account shows the loss of the bank on account of rediscounting notes or other commercial paper; it is shown as a loss on the Statement of Profit and Loss.

If desired, the transactions with interest and discount may be recorded in one account under the caption, Interest and Discount. This plan is followed in the practice set, but the accounts are discussed separately so that the student may understand that separate accounts may be kept.

### REDISCOUNT ACCOUNT

§ 120. **The Object of this Account** is to show the result of transactions with the Federal Reserve Bank or other bank with which commercial paper has been rediscounted. The Federal Reserve Bank allows member banks to redeem rediscounted paper at any time prior to maturity. It is to the interest of a member bank to redeem rediscounted paper because the discount charge by the Federal Reserve bank is refunded at the time the paper is redeemed.

*Debit this account:*

- (1) With the face of each rediscounted note or other commercial paper at the time it is redeemed.

*Credit this account:*

- (2) With the face of each note or other commercial paper rediscounted with the Federal Reserve Bank.

The balance of this account shows the face value of notes rediscounted with the Federal Reserve Bank; it is a contingent liability and is shown as a deduction from the Loans and Discounts account on the Statement of Resources and Liabilities. This account has the same relation to the Loans and Discounts account as the Notes Receivable Discounted account has to the Notes Receivable account.

NOTE: The reference to Federal reserve banks in connection with rediscounted paper applies to member banks only. Banks which are not members of the Federal Reserve system would have a Rediscount account if commercial paper is rediscounted, even though it does not have transactions with the Federal Reserve Bank.



### COLLECTION ACCOUNT

§ 121. **The Object of this Account** is to show the cost of and the returns from collections. This includes the amounts paid to and received from correspondent banks, or sundry banks, for the collection of cash items, notes, drafts, trade acceptances and other commercial paper.

*Debit this account:*

- (1) At the close of each business day, with the total collection cost for the day, as reported by the various tellers.

*Credit this account:*

- (2) At the close of each business day, with the total returns from collections during the day, as reported by the various tellers.

The balance of this account may be a debit or a credit, depending on the amounts received and paid for collections. A debit balance is shown as a loss on the Statement of Profit and Loss, and a credit balance as a gain on the same statement. If desired, the total of the debit side may be shown as a loss, and the total of the credit side as a gain.

### EXCHANGE ACCOUNT

§ 122. **The Object of this Account** is to show the amounts received and paid for exchange on bank drafts. The nature of the account is the same as the Collection account, and the two are frequently combined into one account.

### SAFETY DEPOSIT RENT ACCOUNT

§ 123. **The Object of this Account** is to show the income from the rental of safety deposit boxes. The cost of maintaining the safety deposit vault may be charged direct to this account or may be treated as one of the general operating expenses of the bank and the receipts from the rent as an income.

*Debit this account:*

- (1) With the cost of operating this department, which includes the salaries of those who are in charge of it, and sometimes the proportionate part of the rent applicable to the space occupied.

*Credit this account:*

- (2) With the income from the rental of safety deposit boxes and storage space.

The balance of this account shows the net income from conducting this department; it is shown as a profit on the Statement of Profit and Loss.

### PROFIT ON SALE OF REAL ESTATE ACCOUNT

§ 124. **The Object of this Account** is to show any profit that may result from a sale of real estate that was purchased by the bank. When the real estate is sold, the account is credited with the cost value and a Profit on Sale of Real Estate account credited with the excess; if sold at a loss, a Loss on Sale of Real Estate account is debited. A special account should be kept with the profit or loss on each piece of real estate.

The balance of the Profit on Sale of Real Estate account is shown as an income on the Statement of Profit and Loss, and the balance of the Loss on Sale of Real Estate account is shown as a loss.

### PROFIT ON SALE OF BONDS ACCOUNT

§ 125. **The Object of this Account** is to show the profit on the sale of a particular series of bonds. If desired, one account may be kept which will show the profit on the sale of all bonds. If separate accounts are kept with each series of bonds, separate accounts will show the profit or loss on the sale; if one general profit account is kept, the series is indicated in the explanation column of the ledger.

The balance will be listed on the Statement of Profit and Loss as an income. If the bonds should be sold at a loss, a separate account would be kept to show this and its balance listed as a loss on the Statement of Profit and Loss.

### OPERATING COST

§ 126. **The Bank** must pay certain expenses necessary in connection with its operation. These expenses include salaries of employees, rent, heat, light, water, stationery and supplies, posters, freight and express on incoming and outgoing shipments, taxes, premiums on insurance policies, repairs, directors' fees, premiums on surety bonds, attorneys' fees, auditors' fees, telegraph and telephone service, and many other miscellaneous expenses. These operating expenses may be charged to one General Expenses account or they may be separated into a number of accounts. Thus, the salaries of executives and the board of directors may be shown in the Administrative Expenses account; the salaries of employees, in the Salaries account; check books, pass books, stationery, etc., in a Stationery and Supplies account; Government, state and municipal taxes, in a Taxes account; rent, heat, light, building maintenance, etc., in a General Expenses account; salaries of employees in connection with the selling of the services of the bank and advertising cost, in a Selling Expenses account; etc.

The expenses of the bank are usually paid by cashier's check made out in special voucher form. Salaries of employees showing the cost of services should be shown in the Selling Expenses account; it costs the bank to sell its services just as it costs the merchant to sell his goods. Formerly it was considered poor policy on the part of banks to advertise, but it has long since been proven that the motto, "It pays to advertise," applies to the banker as well as to the merchant.

### GENERAL EXPENSES ACCOUNT

§ 127. **The Object of this Account** is to show all the operating cost of the bank. If desired, separate accounts may be kept with the various expenditures mentioned in § 126.

*Debit this account:*

- (1) With amounts paid as operating cost unless a separate account is kept with each.

*Credit this account:*

- (2) With any amount which reduces the operating cost charged to this account.

The balance of this account shows the operating cost of the bank and is listed as such on the Statement of Profit and Loss. If only one General Expenses account is kept, the operating cost on the Statement of Profit and Loss should be substantiated by an analysis of the General Expenses account. If desired, the facts obtained from this analysis may be shown on the Statement of Profit and Loss instead of as a supporting schedule.



## STATEMENT OF THE BUSINESS

§ 128. **The Statement of the Business** for a bank is prepared for the same purpose as for a mercantile concern. It consists of two distinct statements—one showing the resources (assets) and liabilities, usually referred to as the Statement of Resources and Liabilities, and the other showing the income and operating cost, usually referred to as the Statement of Profit and Loss. National Banks are required, upon request of the Comptroller of Currency, to prepare a Statement of Resources and Liabilities at the close of any business day. Statements for private banks are subject to the laws of the state in which the bank operates.

§ 129. **The Statement of Profit and Loss** shows the income from the various departments, any special profits for the period, the operating cost, and any special losses that may have occurred during the period. Illustration No. 47 shows the form of Statement of Profit and Loss required at the close of the practice set which accompanies this text.

**STATEMENT OF PROFIT AND LOSS, Merchants National Bank**  
For six months ending Dec. 31, 192....

<b>PROFITS</b>		
Interest and Discount .....	\$ 8,243.77	
Collection and Exchange .....	409.30	
Safety Deposit Rent .....	110.00	
Profit on Sale of Real Estate .....	1,550.00	
Profit on Sale of Stocks and Bonds .....	300.00	
TOTAL PROFITS .....		\$10,613.07
<b>LOSSES</b>		
Salaries .....	\$ 4,620.00	
Heat and Light .....	99.15	
Stationery and Stamps .....	262.60	
Express .....	81.50	
Taxes and Repairs .....	567.40	
General Expenses .....	216.65	
TOTAL EXPENSES .....		5,847.30
NET PROFIT FOR THE PERIOD ...		4,765.77
<b>PROOF</b>		
Undivided Profits for Former Period .....	700.00	
Surplus .....	7,500.00	
Net Profit for Fiscal Period .....	4,765.77	
SURPLUS AND UNDIVIDED PROFITS		12,965.77

§ 130. **The Statement of Resources and Liabilities** consists of the current, fixed and accrued resources (assets) and the current and accrued liabilities. The current resources (assets) are divided into four classes: (a) cash in the vault of the bank, (b) loans and discounts, (c) securities, and (d) amounts due from correspondent or other banks to which cash items have been sent for collection and remittance. The fixed resources (assets) may be divided into two classes: (a) the building and lot which is the home of the bank, and (b) the furniture and fixtures in the bank. Other real estate owned by the bank is held only temporarily, hence is usually listed as a current resource. The accrued resources (assets) may be divided into two classes: (a) accrued interest in connection with loans and discounts, and (b) prepaid taxes, stationery, advertising matter, and other property purchased for use in the operation of the bank, but not yet consumed. The liabilities may be divided into four classes: (a) amounts due depositors, (b) amounts owed to other banks, (c) accrued liabilities, and (d) capital liabilities. Banks do not issue bonds, hence have no fixed liabilities. Illustration No. 47 shows the form of statement prepared at the close of the practice set which accompanies this text.

## STATEMENT OF RESOURCES AND LIABILITIES

### Merchants National Bank

Dec. 31, 192....

RESOURCES		
Cash in Vault.....	\$ 44,420.00	
Loans and Discounts.....	134,890.76	
U. S. Bonds.....	50,000.00	
Other Bonds.....	13,500.00	
Federal Reserve Bank Stock.....	3,000.00	
Redemption Fund, 5%.....	2,500.00	
Chem. National Bank, N. Y.....	10,995.60	
Corn Exc. Nat'l Bank, Chicago.....	29,524.85	
Fed. Reserve Bank.....	28,475.33	
Sundry Banks.....	1,020.40	
Real Estate.....	3,564.25	
Banking House and Lot.....	12,356.75	
Furniture and Fixtures.....	6,360.00	
Accrued Assets.....	1,310.25	
TOTAL RESOURCES.....		\$341,918.19
LIABILITIES		
Deposits		
Cashier's Checks.....	\$1,114.45	
Certificates of Deposit.....	9,100.00	
Certified Checks.....	7,572.50	
Depositors.....	210,200.19	
Accrued Liabilities.....	965.28	
Circulation.....	50,000.00	
Capital Stock.....	50,000.00	
Surplus and Undivided Profits.....	12,965.77	
TOTAL LIABILITIES.....		\$341,918.19

Illustration No. 48. Statement of Resources and Liabilities.



§ 131. **Entries to Close the Ledger.** After the Statement of Profit and Loss has been prepared and approved by the board of directors, the accounts which appear on the Statement of Profit and Loss are closed by journal entry. Illustration No. 49 shows the form of journal entry required to close the accounts in Illustration No. 47. In this illustration, all the profit and loss accounts are closed in the Profit and Loss account and this account closed into the Undivided Profits account. If a part of the profit is to be set aside as Surplus, this would be shown in the journal entry. When the journal entry is posted, all the accounts on the Statement of Profit and Loss will balance.

Dec. 31, 192....

Interest and Discount.....	\$8,243.77	
Collection and Exchange.....	409.30	
Safety Deposit Rent.....	110.00	
Profit on Sale of Real Estate.....	1,550.00	
Profit on Sale of Stocks and Bonds.....	300.00	
Profit and Loss.....		\$10,613.07
Profit and Loss.....	5,847.30	
Salaries.....		4,620.00
Heat and Light.....		99.15
Stationery and Stamps.....		262.60
Express.....		81.50
Taxes and Repairs.....		567.40
General Expenses.....		216.65
To close the profit and loss accounts into the Profit and Loss account.		
Profit and Loss.....	4,765.77	
Undivided Profits.....		4,765.77
To close the Profit and Loss account into the Undivided Profits account.		

Illustration No. 49. Journal Entries to Close the Profit and Loss Accounts.

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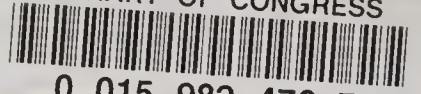








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