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BOOK REVIEWS

Case Studies in Internal Control, No. 1—The Textile Company

Sponsored by the 1949-50 Committee on Auditing Procedure, American Institute of Accountants. AMERICAN INSTITUTE OF ACCOUNTANTS, New York, N. Y., 1950. Pages: 64; single copy price—50¢; 10 per cent discount for quantity orders of 25 or more copies; special price of 25¢ per copy to accounting students enrolled in recognized colleges or schools.

The Committee on Auditing Procedure of the American Institute of Accountants, recognizing the importance of internal control in connection with the independent public accountant's examination of financial statements, decided that case studies should be made to illustrate how internal control should be evaluated in deciding upon the scope of the examination.

The first of such case studies was that of a textile company, obviously made by one of the larger accounting firms. The study is primarily an example of a questionnaire used by an accounting firm with the answers and explanations all supplied. It then proceeds to explain how the accountants used the completed form to suggest changes needed to correct the defects in the system of this particular client.

The questionnaire is to be answered on the first engagement, and the procedures reviewed at each subsequent engagement with spaces for recording changes as they occur.

The questionnaire is in complete detail so that it probably could be used in the examination of the largest commercial organizations in the country. The average practitioner would, however, find that since so many parts of the form would be answered in the negative by most of his clients, it would be of little value to attempt to use it.

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BOOK REVIEWS

(Continued from page 380)

The explanations state that in many smaller audits the accountant filling out the questionnaire will have to write "not applicable" in answer to many of the questions, but I doubt the wisdom of using an elaborate questionnaire on a small audit. On smaller engagements the size of the client's clerical staff would indicate that necessary cross checks for good internal control could not be instituted. In such cases I feel that an easier method would be to record the controls actually in use, and attempt to strengthen or increase them as conditions warrant.

The study is a meritorious piece of literature and even though one's clients are not sufficiently large to use a questionnaire such as this, there are many parts of it which one may use. A thorough examination of this booklet is recommended for all staff members as an annual review.

H. J. BEAIRSTO

Case Studies in Internal Control, No. 2— The Machine Manufacturing Company

Sponsored by the 1949-50 Committee on Auditing Procedure, American Institute of Accountants, AMERICAN INSTITUTE OF ACCOUNTANTS, New York, N. Y., 1950. Pages: 40; single copy price—50¢; 10 per cent discount for quantity orders of 25 or more copies; special price of 25¢ per copy to accounting students enrolled in recognized colleges or schools.

This study is a smaller edition of Case Study Number 1, having many of the features of the first study, but being designed on a smaller scale.

This study also uses the questionnaire method of evaluating the system of internal control, and the answers and explanations are supplied, together with additional comments as to their use.

The questionnaire, while not as elaborate as that used in Study No. 1, is still a formidable document. When properly completed, the form should supply most of the answers to any possible question as to the methods in use by the client, as well as an excellent picture from which to evaluate the degree of internal control.

I could just refer you to the review of Case Number 1 and practically everything I wrote on that review could be applied to the second study. It should also be read periodically by every staff member as a review of things he has forgotten, and between the two

booklets he will undoubtedly have covered all of the necessary procedures.

H. J. BEAIRSTO

New York, N. Y.

Simplified Municipal Accounting

(A Manual for Smaller Governmental Units). Prepared by Municipal Finance Officers Association of the United States and Canada. Published under the supervision of Public Administration Service, Municipal Finance Officers Association, 1313 East 60th Street, Chicago 37, Illinois, 1950. Pages: xii + 162; \$3.25.

The first chapter in this ten-chapter manual is introductory in nature and discusses the need for accounting, the purpose of an accounting system, manual versus machine accounting, and the personnel and duties of those handling the records. The material of the second chapter includes a description of the various funds, a discussion of the accrual versus the cash basis of accounting, and the terminology and classification of accounts.

The content and description of the financial, analytical, and summary statements are explained in the third chapter. The fourth is devoted to a discussion and illustration of the accounting records, original and secondary. It presents a graphic picture in the form of a Chart of Accounting Information, consisting of documents which constitute original evidence of financial transactions, registers which are the intermediate source of information for general journal entries and for analysis of financial transactions, books of original entry which are a day-by-day financial history, subsidiary ledgers which give a detailed picture of financial status, books of final entry which are a summary and analysis of financial operations, and the financial statements which give a concise picture of financial operation and status.

Chapter five presents definitions and explanations of various accounts as well as charts of revenue accounts by source, and of expenditure accounts by function and activity, character, and object. Accounting for receipts and disbursements is thoroughly handled in chapter six, which presents an excellent flow chart of receipt transactions. A series of illustrative journal entries involving the most important funds occupies the fifteen pages of chapter seven, while the definition, purpose, preparation, and content of a budget is handled in chapter eight.