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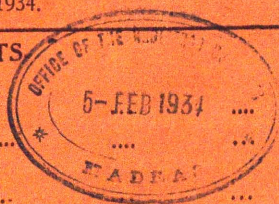
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THE MANGER,
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The Indo-Japanese Commercial Treaty.

The Indo-Japanese commercial treaty that has recently been concluded will, we think, be received in the country with mixed feelings of joy and sorrow, with joy because the Japanese boycott of Indian raw cotton has been lifted and the poor Indian cotton growers have been able to secure their old customary Japanese buyers. and also with sorrow because the Japanese have obtained all that they needed whereas India has obtained nothing but the Japan's agreement to purchase her cotton. We think the price that India has paid to retain her old customer, Japan, for her raw cotton is indeed a very big one. What has India actually gained by this treaty? She has secured a market for 1,500,000 bales at the maximum and that is all. But on the other hand Japan has secured in these days when finding a market is not easy, a treaty right to sell 400 million yards of cloth and an additional right, viz., the most-favoured-nation clause by which her products will obtain the benefit of a lower rate of import duty in India as those of

British manufactured products. Thus, if India can feel glad over finding a market for a portion of cotton produced by her, she has at the same time to feel sorry for having mortgaged, perhaps permanently, a substantial portion of her market not only for the sale of the Japanese textiles but also for others as a result of the most-favoured-nation clause. Now that Japan has secured this special right she can dump the Indian market with her wares without any fear of their being taxed with high import tariff and when one takes into consideration what Japan did in the past, only a very few years before, in South Africa, where a similar treaty right was secured by her, one's mind trembles. There the Japanese goods were flooded within a few months after the treaty was signed with such large quantities and at very competitive prices that some British merchants who were dealing in similar line of goods had of necessity to close their shops, being unable to effectively compete with the Japanese products. We think we may also have to experience similar results in our country in the near future. Further, as we have pointed out in these columns, in buying her raw cotton from India, Japan has been doing nothing more than what she would do as an intelligent and careful purchaser of her raw products in the cheapest world market and as such the benefits she has obtained by this treaty are indeed far too much. There exceptional facilities she

has been able to secure because her Delegation played their part so well and applied the boycott lever so very effectively that the Indian Delegation in their anxiety to see that the boycott is lifted did not claim for better terms or felt themselves unable to obtain more advantageous terms. We are sorry that by this treaty, the full terms of which are now in the draft stage, India has been allowed to be satisfied with the mere role of being a supplier of the most important commercial raw product—cotton, and that of being a consumer of finished products—clothes. The hoped for expectation, as a direct result of the Japanese boycott of Indian raw cotton, of a good incentive to the growth of the cotton industry has not come true. Unfortunately the country's greater interests towards the building up of the only national industry have been sacrificed by an over-anxiety to secure a market for the cotton through the Japanese buyers. This is really so because those in the know of things are aware that though Japan boycotted Indian cotton for a period of about seven months last year (June 1933 to January 1934) it was more so to all outward appearance than of real truth, for, on the other hand, the Indian cotton which would have been purchased by her in her normal days, before the boycott, month by month, was purchased some weeks before the boycott, in advance and in bulk in such large quantities, to satisfy her

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industrial needs for a period of more than six months, that steamers in sufficient number were not available at Bombay to transport the cotton so purchased to Japan in time. The poor Indian cotton growers not knowing this simple truth were feeling sorry over their fate and were trying their level best to regain their esteemed customer, Japan, at any cost.

We believe a golden opportunity has come and gone. India ought to have exhibited a better self-control and utilised the opportunity that has come her way to build up her cotton industry. Perhaps better days for India's commercial and industrial progress are still far off and she has still to occupy the same position of supplier of raw products and consumer of finished products as has been the case all these years. Even though according to the terms of the treaty Japan has consented to purchase cotton to the extent of 1,500,000 bales every year, there is another aspect of the question which remains to be seen only in course of time. A nation that has so successfully secured her needs in a treaty of the kind that has now been concluded and has also thoroughly found out the needs of the Indian cotton growers, she can hereafter even go to the extent of dictating prices

at which Indian cotton should be purchased and because of the unity existing among the Japanese buyers, we think, they can very easily succeed in their attempt if they are only bent upon doing so. When one considers the condition they dictated a few days before, to call off the boycott, viz, the boycott will be lifted on lowering the duty on the Japanese goods by the Government of India from the existing 75 per cent to 50 per cent, one is driven to the painful conclusion that because of the successful termination of the talks from their point of view they had acted as the victorious party would do. Fortunately, to save the prestige of the Government of India, a reuter's telegram of the next day reported that the Osaka and Kobe Chambers of Commerce, probably finding the offensive nature of the condition imposed, changed its phraseology in a more suitable manner removing the odium contained in it. Any how in the absence of a national Indian government with full powers in the hands of the legislators of the country to protect the interests of the cotton growers in the country in some other way, what we have secured is all that we can hope to do and therefore we must be satisfied with the result now obtained.

NEWS AND VIEWS.

The value of currency notes in circulation in India on the 30th November 1933, as notified by the Controller of Currency is Rs. 1,79,63,66,585 which is Rs. 17, 47, 226 greater than that of the week ending 23rd November 1933. Towards the prompt repayment of these notes on demand, Reserves in India in the shape of silver coins and silver and gold bullion as detailed below

Silver coin	...	Rs. 92,96,86,455
Gold bullion	...	Rs. 30,23,90,557
Silver bullion	...	Rs. 10,29,81,346

and Government securities of the nominal value of Rs. 46, 62, 21, 600 at their purchase price of Rs. 46, 13, 08, 227 are maintained, thus making up the reserve equal to the value of notes in circulation.

* * *

The last examination for the grant of Government Diploma in Accountancy, will be held from Tuesday the 3rd April to Monday the 9th April 1934 at Bombay, Madras, Calcutta, Allahabad, Karachi, Rangoon and Bangalore and applications for admission to the above examination must be forwarded with a fee of Rs. 50/- so as to reach the Secretary, Accountancy Diploma Board, Sydenham's College Building, Hornby Road, Bombay on or before the 31st January 1934.

* * *

The Midland Bank has instituted another new 'service' for the convenience not only of its present customers but also of the public generally. In its magnificent new premises in Poultry, London, safe deposit facilities are now available in a separate department of the Bank. Situated just below the main banking offices, the new department is a fine example of modern "lay-out," with its spacious offices and marble flooring and walls. A specially constructed strong room, protected by an entrance door and frame weighing 35 tons, contains a large number of private safes each fitted with a deed box. Only two keys of each safe have been made and both are handed to the renter, who thus secures for himself or an accredited representative sole access to his safe. Along the corridors outside the strong room is a suite of inspection rooms in which renters may examine the contents of their boxes, handle correspondence, conduct interviews, and deal with any other business in strict privacy. Each room is furnished and is equipped with writing materials, notepaper, and a telephone for the use of renters. The fees for the use of a safe and the added facilities, resembling those of a business club, are moderate, ranging from 10 shillings per annum for a small safe to £30 per annum for a strongroom.—G. K. B.

REVIEW.

Indian Income-Tax Simplified 1932.

BY

FRAMROZ R. MERCHANT, F.S.A.A. (Lond.)

Bennett, Coleman & Co. Ltd., Bombay.

Price Re. 1/-

This little treatise of 36 pages on Income-tax is mainly intended to serve as a handbook for the information of the general reader and as such it deals with the subject in a general way. The chapter on the filling up of the Annual Return Form contains a fund of information which should prove very useful to traders, salaried employees and others who are annually called upon to

prepare it for submission to the Income-tax Officer. In a chapter specially devoted to the "Refund of Income-tax" the author with his intimate knowledge of the official routine, has done a distinct service, both to the Department to which he belongs and the general public, by describing in full the procedure to be followed for obtaining refunds. We heartily welcome publications of this kind written by men of the type of the author who can do full justice to the task they have set before themselves, and hope this book should prove to be of great use to those who are interested in matters connected with Incometax.

“The Rupee Exchange”.

BY

RAO BAHADUR C. GOPAL MENON, MADRAS.

The present time is the most opportune for reconsidering what is the most advantageous rupee ratio for India. Prices have fallen below pre-war level while the standard of living of the people has not come down in anything like a similar proportion. India has become the dumping ground for the manufactures of countries of depreciated currencies. Indian prices have received ruder setback than in the rest of the world as it is mainly an agricultural country with even the key industries still in an undeveloped stage. During the six or seven years of the 18d. ratio the export trade of the country has been on the decline and the withdrawal and export of capital from productive enterprises in India has been very remarkable. The import trade could not be sustained by the exports and so it has been artificially propped up by the export of gold which is the hoarded wealth of the people on which their credit depends. This outflow of gold while all the countries of the world including Britain are engaged in unseemly scramble for gold is a continuous drain of the economic vitality of the country. In these circumstances the attempt of the Government to perpetuate this controversial ratio in the Reserve Bank Act whose amendment in all probability will be controlled by the British Parliament is certainly ungenerous and the acceptance of the ratio in the Assembly by a narrow majority is very unfortunate. But as the large majority of the elected section of the

House was strongly opposed to it it can safely be concluded that the Government have acted in direct contravention of the interests of the people of the country. It therefore behoves the Currency Leagues organised in different parts of the country to redouble their efforts for the restoration of a healthy tone in the exchange market and in the foreign trade of the country.

Brief history.

Within the last 40 years the Indian currency and exchange has undergone many misadventures. In 1893 the Herschell Committee stopped the free coinage of silver with a view to the introduction of a gold standard and the sovereign was valued at Rs. 15/-. In 1898 the Fowler Committee definitely fixed the exchange value of the rupee at 16d. and the sovereign was made legal tender. It remained the effective standard until the 28th August 1917 when the price of silver began to raise the value of the rupee above its face value. In 1919 Babington-Smith Committee established the rupee at the ruinous and unthinkable rate of 2sh. gold. The most pathetic part of it is that in September 1920 when the law for 2sh. ratio was actually passed in the Central Legislature the *de facto* rate was as low as 1sh. 4 5/16d. gold. The Government then set upon a mad career of deflation and sale of reverse councils in the fond hope of perpetuating 2sh. ratio. Fifty-five

and a half millions of pounds of reverse councils at 2sh. in the face of such a low market rate as 1sh. 4d. with a deflation of Rs. 35 crores on top of it sent a fatal shock through the country. The experiment was then wisely abandoned and the rupee oscillated between 11 9/32d. to 1sh. 3 3/4d. gold from August 1921 to September 1924. On the 11th October 1924 when exchange was 1s. 4 1/4d. gold the Government of India telegraphed to the Secretary of State that their policy was to look for "a permanently higher rate than 1sh.4d. gold". In April 1925 the pound sterling reached gold parity. In 1926 the Hilton Young Commission inaugurated the present controversy of 18d. ratio. Against heavy odds the Government have been propping up that refractory ratio for the last seven years. One can observe a note of pathos in the tale of deflation to which the Government had to resort as referred to in the Budget Speech of February 1931. Sir George Schuster said that from 1st April 1926 up to the 31st December 1930 the actual currency deflated amounted to Rs.96 crores, reduction in notes accounting for 32 crores and return of silver rupees to Reserve accounting for Rs. 64 crores. That is the penalty which Government and the country had to pay for supporting the higher ratio. The question is often asked 'what impels Government to stick to an iniquitous ratio in season and out of season? Apparently from the point of view of India and the Government the payments abroad for purchases and India office expenses are the only material

consideration and of course, arithmetically speaking, India would have to pay more rupees for purchasing the necessary sterling. The excess payment would be Rs. 5 to 6 crores a year. Apart from that there is no expectation of any other harm to Indian interests. But it must be recognised that the thousands of British civilians and military men and merchants and manufacturers employed in this country have to make monthly and yearly remittances to their families and relations and have to send the accumulated savings and the capital that was originally brought. All these remittances gain 2d. per rupee, and that is of course a huge figure. As against this, the entire exports of the country amounting in normal years to not less than Rs. 350 crores are losing in that same proportion. If the exchange were 18d, every rupee of this amount would fetch 2as. more and the distribution of extra Rs. 45 crores among the people every year would immensely raise their purchasing power. The internal prices would rise as by magic. When the exported section of the goods brings higher prices the whole of the goods left in the country also fetch the same prices and this general rise in prices of export goods would necessarily lever up the prices of imported goods. A general rise in prices would then bring more lands into cultivation, more factories and mills into working conditions, more traffic will flow into the Railways and more people will be employed; thus the whole country will feel the thrill of the rise and once more the country will become prosperous. Of course this progress

can be retarded to a greater or lesser extent by the indifference and opposition of other countries of the world.

ATTITUDE OF OTHER COUNTRIES.

Most of the civilised countries of the world have made it an important part of the recovery scheme that their currencies should be effectively devalued. Norway, Sweden, Portugal, Persia, Egypt, Canada, Australia, New Zealand, South Africa, etc., all went off the gold standard in quick succession. Japan and America also succumbed after a severe struggle. Germany has practically depreciated her currency because of the Government's resolve to accept at par German bonds bought at a discount abroad against German exports. The remaining isolated countries still on the gold standard are passing through a great ordeal and there is no knowing what changes may take place in their policy very soon.

INDIA'S INTERESTS.

In these circumstances India's interests

imperatively demand that the country's currency and exchange should be made to subserve her requirements, the requirements of her industries and of her foreign trade. The rupee's exchange value should be the natural ratio which can be supported by the normal inflow and outflow of foreign trade but which should not have to depend on the tender mercies of special Reserves. It must be the endeavour of the Government to find out how best to cheapen Indian products to foreign buyers and thus promote the export trade which is the proper measure of the stamina and buying power of the country. If India's exports fetch a better price it directly helps the Indian exporter and helps him indirectly to purchase more of the imported luxuries. Therefore a low rate of Exchange directly helps export trade and indirectly the import trade. What is required is a good ebb and flow of trade and the rate of exchange to depend on the availability of bills offered in the market.

Being Businesslike.

BY

ELSIE G. MAY, M. A.

Staff Lady Superintendent.

Those who want to succeed in business should be business like. But what exactly do we mean by this term? Although different business positions require some what different qualifications, there is, nevertheless, a general sense in which the phrase is understood. It is both positive and negative, including certain characteristics

and debarring others. Let us begin with the most external thing—dress. Is there anything specially suitable to the office? We can all work better when we are comfortable and at ease in our clothes. But though men like to have an office coat, they should look at it sometimes to see that all the buttons are on and that the ends of

their sleeves are not frayed. It is not quite fair to your employer to look more poverty-stricken than you are. Girls want to look nice and are more likely to err in the opposite direction by being too smart, which is unsuitable. There is no need to be dowdy, but it is better to avoid colours and materials that catch and show all the dust. A good rule is to have always the best cut that one can afford, rather than to aim at keeping in the very latest style. Overalls are now so pretty as well as serviceable that there is much to recommend them, especially for those who have to handle files. Complexions are really more pleasing without too much attention, and that unnatural glitter on finger-nails suggests anything but business.

Your Expression. The look on one's face settles into a habit, and sometimes a habit that could be changed with advantage to all concerned. Some people go about their duties with a constant frown, giving the impression that they are frightfully overworked, whether this is so or not. They forget that an outward expression sets up its corresponding feeling in the mind, so that to look worried produces a sensation of being worried and so hinders good work. If they would only try smoothing out the frown and looking calm, they would soon find an astonishing change in their feeling, which would be reflected in their work. Moreover, then they are frowning, it is very likely that they are working with tense muscles in arm, back,

or shoulder, perhaps even with feet curled tightly up; and if this tension is relaxed, it goes a long way towards relieving any mental strain and imparting a feeling of confidence. When next you feel rushed, just try letting all your limbs go slack for a minute or two; then take one or two deep breaths before going on with your job.

Your Manner. Then there is manner to be considered—an important asset or liability, as the case may be. An offhand manner bordering on brusqueness is a real disadvantage. Sometimes shyness makes people abrupt and awkward; those who suffer in this way should make a habit of fixing their attention on the matter in hand rather than on their feelings about it and they will thus overcome their self-consciousness. In preparation for a difficult interview it will help not to dwell on the difficulties but to picture oneself as complete master of the situation, bringing everything to a satisfactory conclusion. For things are apt to turn out in the way that we in our heart of hearts expect; and we hardly realise the extent to which we draw to ourselves either what we fear or what we confidently desire. To return to the business-like manner—excessive cheerfulness and friendliness, the gush of the salesman who nearly crushes the bones of your hand by way of assuring you of his goodwill—these are not to be recommended. What should be aimed at is an air of quiet capability with a suggestion of reserve power.

Pitman's Journal of Commercial Education.

The Accountancy Profession, its Comedies, Tragedies, and Romance.*

BY

ERNEST EVAN SPICER, F.C.A.

I believe there is romance to be found, by those who seek it, in every business and profession, no matter what that business or profession may be; and it is only the blind, the unimaginative, and the unambitious who fail to realise its glorious influence.

Its halo descends as readily on the pill-maker as on the parson; for each of them sees salvation to the world arising from the broadcasting of their products, and there is romance in the very contemplation of such world-wide purification of body and soul.

The accountancy profession provides no exception to the rule, but on the contrary vies with the legal and medical professions for supremacy of position.

Accountants deal with the affairs of the living and the dead; the solvent and the insolvent; the rich and the poor; the young and the old; and their investigations embrace the past that is past, the future that will presently pass, and the passing present that will presently pass too.

Surely in all this there is room, and to spare, for romance, for laughter, and for tears.

The most romantic moment in the life of a practising accountant is that when first he erects a brass plate outside his office door. This is a somewhat curious psychological

fact, since in reality a brass plate rarely, if ever, brings any business, and is usually either too small or too large to be seen by an unobservant public. But there is something about brass that looks like gold, and as the young practitioner, full of hope and ambition, contemplates the shining metal, he sees the whole road to fortune lying before him; and from a pinnacle of self-satisfaction looks down upon other practising accountants already in the field, with feelings akin to sympathy because of the disaster which awaits them as a direct consequence of his entering the lists.

And then comes the second romantic moment—when the office boy announces the first client.

I really believe that if the public only knew what attention was bestowed on the affairs of that first client practising accountants would never be kept waiting for their first job.

My first client was a lady, and she never came again.

A second and a third client may or may not follow in rapid succession, but it usually happens that after about six months the young accountant begins to experience a cold feeling of despair creeping upon him.

He sees work pouring into the offices of the old established firms; he sees their names rather than his own upon prospectuses; he sees

* A lecture delivered before the Nottingham Chartered Accountants Students' Society.

them appointed to carry out work which he could do with equal skill and, if given the chance, would probably do much better; and he feels that there is no justice in the world, and that the only truth that remains lies in the trite old saying of Holy Writ—"To him that hath shall be given."

This is the first suggestion of tragedy that clouds the outlook, and yet in reality it is no tragedy at all. A man who starts in practice for himself must realise sooner or later—if he is to succeed in his profession—that every accountant who has gained the respect and confidence of the public has contributed in some measure towards bringing the profession to the honourable position it occupies to-day; and it is because the profession stands so high to-day in the public esteem, that it is possible for him by following it, to eke out an honourable, even though it be a precarious, existence.

But when success is achieved in the teeth of weighty competition, then for the first time the young practitioner experiences the true joy of business. He casts aside that soul destroying spirit of envy, and he realises that no profession is too crowded for a worthy man.

Well do I remember the first time that we co-operated with a great London firm, and well do I know that we did all the work and shared the fee. It was a great moment in my life, for I saw then, as I see now in moments of extreme optimism, a time coming when I, too, may take the reward and watch the other man do the work.

Fraud

I want to deal for a few minutes with the subject of fraud in accounts, because out of fraud arises much romance, and

occasional touch of comedy, and a great deal of tragedy.

Practising accountants always look for fraud, but very seldom find it. This is chiefly due to the fact that the great majority of people are amazingly honest; and also, in a lesser degree, to the fact that in some cases it is impossible for an auditor to detect fraud which has been perpetrated, however skilfully he may perform his duties.

It is clear that the accountant who helps to prevent fraud performs a much higher service to his client than one who merely helps to detect fraud, but, unfortunately, this fact is not sufficiently appreciated by clients.

The only way to prevent fraud is to create an absolutely perfect system of internal check, but this is Utopian, and is impossible of attainment.

This, however, does not detract from the merit of aiming high and approaching the ideal as nearly as possible, and therefore I throw out a suggestion to all practising accountants.

Every few years the internal organisation of every large business should be examined by a professional accountant, not with any idea of verifying the figures in the books, but with the object of ascertaining whether the internal check is up to date and complete.

This work should in no circumstances be performed at the time of the audit, nor should it be confounded with or be treated as part of the audit. It is a very special investigation commanding a very special fee.

The advantages of such an investigation are considerable both to the client and the auditor, for an auditor, who has a detailed

knowledge of the internal organisation of the business, may be able to make valuable suggestions from time to time to his clients, and will know what are the most vital matters to which he should direct his attention when performing his regular audit.

Fraud may be roughly divided under four headings as follows:—

1. Fraud which the auditor can detect and does detect.
2. Fraud which the auditor ought not to detect, but does detect.
3. Fraud which the auditor cannot detect, and does not detect.
4. Fraud which the auditor can detect, but does not detect.

I will deal briefly with each of these four possibilities *seriatim*.

1. *Fraud which the auditor can detect and does detect.*

I think that every professional accountant who detects fraud should give a donation to the benevolent fund and sing the Magnificat, for it is very easy to pass a defalcation committed by an astute man.

The odds are usually 2 to 1 against the auditor, 2 to 1 on the office staff, and even betting on the commandment breaker.

Turning now to the second heading, we will discuss.

2. *Fraud which an auditor ought not to detect but does detect.*

The heading is slightly paradoxical, but even an accountant is occasionally favoured by fortune, and wins by luck where he could not possibly expect to succeed by meritorious work.

I once heard of a case where two men entered into collusion to defraud a certain firm. One of them wrote to the other to explain how the audit difficulties could be overcome with absolute safety, but, unfortunately, he addressed the letter to the auditor!

But may I draw from my own experience?

I used to audit the household accounts of a noble lord. At the end of each month the coachman would present receipted accounts for fodder, shoeing, and other expenses incidental to a stable, receiving a cheque by way of reimbursement; and a similar method was adopted with regard to the other head servants, the butler, the chef, and the housekeeper, all of whom had grown fat and rich in the service of my noble client.

On each occasion when I attended the butler would serve me with lunch punctually at 1 o'clock, and an excellent bottle of claret was always provided.

Now on one particularly hot summer's day I experienced a feeling of extreme drowsiness creeping upon me immediately after lunch and fearing lest I should fall asleep in the midst of my labours, decided to take a short drive in a hansom cab. I had a very strong feeling that my client ought to pay for the cab, and so I slipped a few of the coachman's receipted accounts into my pocket and ordered the "Jarvey" to drive to the establishment of a certain well-known corn-chandler. On arrival I opened the conversation by stating that my client was of opinion that the price he was paying for oats was excessive, when, to my astonishment,

the worthy corn-chandler informed me that he had not the honour of supplying anything to the noble lord.

It subsequently turned out that the coachman (in conjunction with his brother-in-law, who was in the printing trade), had obtained a supply of account forms bearing the corn-chandler's name, which he filled up with imaginary items at full West End prices, and pocketed the difference between the amounts so charged and the amounts actually expended in feeding the horses on the cheap.

I explained the whole matter to my client, but did not think it necessary to refer to the claret.

Passing to the third heading we come to

3. *Fraud which an auditor cannot detect, and does not detect.*

It is unnecessary to deal with this heading at any length, since everybody knows that an auditor is helpless in many of the cases of fraud connected with wages and stock, or where the fraud is the result of collusion; but as in such cases the auditor can afford to smile at any comedy arising out of the tragedy, it may not be wholly irrelevant if I mention a case which came under my notice many years ago.

We were auditors to a manufacturing concern, and being dissatisfied with the internal check relating to wages, wrote to our client, pointing out the risk of allowing the manager responsible for the preparation of the wages sheets to pay the wages. We received in reply a letter, which I can only describe as "snuffy," and so we wrote disclaiming further responsibility in the matter.

Later on a fraud was discovered by the office boy. This youth assisted the manager to enter on the wages sheets the names of the men whom he knew had been employed during the week, leaving the manager to complete the sheets and fill in any names that had been overlooked. Now the office boy was a smart lad, and entered on the list one week the name of his deceased uncle. He knew that his uncle was dead, for he had been one of the chief mourners at the funeral, but the manager did not know this, and fell headlong into the trap. The result was that the office boy got a rise, and the manager nine months.

But this is not the point of the story.

The manager's name was Spicer, and his initials were E. E.

We now turn to the last heading:

4. *Fraud which the auditor can detect, but does not detect.*

There is no more tragic moment in the life of practising accountant than when he learns that somebody else has discovered a fraud which he could, and should, have discovered himself.

I have experienced the feeling myself, and I suggest that at such moments one's first instinct is to examine every extenuating circumstance in the case, however slight it may be, through a highpowered microscope in order to tone down the hideous truth of negligence.

We will, however assume the negligence, and consider what attitude the accountant should adopt in such circumstances.

If the client makes no claim on the accountant for damages and the latter feels that there is no call upon him voluntarily to offer to contribute towards the loss, there is not much to be done except to adopt an attitude of dignified appreciation.

If, however, a claim for damages is made, the attitude of the accountant will depend on whether or not he is covered under a policy of insurance. If he is so covered he must not admit liability until after the claim has been submitted to, and examined by, the underwriters, since they may wish to contest the claim on a point of law.

Assuming on the other hand the accountant is not covered by insurance he should examine the claim himself in as dispassionate a manner as possible, taking into consideration all the relevant side issues, and then make up his mind what line of action he should adopt.

It will probably be wise for him to consult some outside person such as a friend in the profession and also a solicitor if there is any point of law arising on which he is in any doubt.

I do not propose to deal with the legal aspect of an accountant's liability for negligence, which will depend on his contract, express or implied; but I would remark that such liability is limited to the extent of any loss sustained arising through such negligence subsequent to the first act of negligence, since the client cannot expect to be placed in a better position through such negligence than he would have been had the fraud been discovered.

To illustrate this point, I will assume the case of a company whose books are audited at the end of each year. The auditor, through negligence, fails to detect a fraud amounting to £5 000 which has been perpetrated prior to the date of his audit, and which affects the accounts under review.

This fraud is discovered by one of the company's employees shortly after the audit has been completed.

The auditor in such a case could not be called upon to make good the £ 5,000, since this would place the company in a better position than if the fraud had been detected; but he could be called upon to make good any defalcations arising from a continuance of the fraud subsequent to the audit, since but for his negligence such further defalcations would not have arisen.

To return, however, to the subject matter of fraud in accounts, I would like to describe a case which came under my notice, and which the auditor in question failed to discover.

The perpetrator of the fraud was a stockbroker's cashier, and he manipulated the tickets payable accounts in a most ingenious manner.

Those who are familiar with the stockbrokers' accounts will know that the balances on the tickets payable accounts appear on the Balance Sheet as creditors, but for the benefit of those who have had no practical experience of such accounts, a few explanatory remarks may not be out of place.

A client gives an order to his stockbroker to purchase, say, 100 Sempah Rubber Co.

shares, and the broker, on receipt of such instructions, forthwith buys that number of shares from the jobber.

The client's ledger account is debited with the price of the shares, plus commission, contract stamp, &c. The jobbers' account is credited with the price at which the shares were bought, and the commission and stamp accounts are credited.

The jobber is a buyer and a seller as well as a holder of stocks and shares, and it often happens that during an account one stockbroker may buy for a client a parcel of shares which will be deliverable in one or more parcels from persons who have sold shares through their stockbrokers, with a chain of jobbers in between the stockbrokers concerned. In other words, the same shares may change hands several times before settling day.

The stockbroker who has bought has to obtain delivery quickly on the settling day, and he, therefore, debits the jobber's account and credits a tickets payable account with the amount payable upon the transaction. He then issues a ticket with a number agreeing with the particular ticket payable account showing the name, address and occupation of the client, the number and description of the shares, and the price payable on delivery.

This ticket is handed to the jobber, who hands it to the next jobber in the chain, paying or receiving any difference in cash; and so on till it reaches the stockbroker who has to deliver, who in turn receives or pays his difference and holds the ticket as a ticket receivable, authorising him to receive the

face value against delivery of the stock. The tickets can be split as they proceed along the chain should it be necessary, the portions equalling the whole bearing as additional particulars the name of the person splitting the ticket. The ultimate result is that the buyers and sellers quickly get into direct touch by means of the ticket, and intermediaries settle by merely paying or receiving differences.

As the various transfers representing the delivery of the stock come through, cash is paid against them, the particular tickets payable account being debited and cash being credited.

Turning now to the particular fraud under consideration, the cashier drew a cheque for £60, which was signed by one of the partners under the impression that it was in payment of shares which had to be delivered under a particular ticket account.

The cheque, in accordance with Stock Exchange custom was in bearer form, and was made payable to a number. There was thus on the cheque nothing to indicate on what account it was payable. The cashier paid this cheque into his own banking account, and made an entry on the credit side of his cash book to ensure that the cheque would be posted to the debit of a tickets payable account say, No. 1364.

We will assume that this ticket account was opened in connection with the order for the purchase of the 100 Sempah Rubber Shares, and that none of these shares had actually been delivered. This account, which should have been in credit to the

extent of £100, representing the liability to pay for 100 shares at par, thus appeared in credit to the extent of £ 40 only, as would have been the case had there been a balance of forty shares only outstanding.

The cashier was aware that his manipulation could only be of a temporary character, since as the transfers representing the Sem-pah Rubber shares came to be delivered, he would have to get rid of the £60 posted to the debit of that account, otherwise the account would eventually show a debit balance of £ 60, which would immediately call for explanation.

In the course of a few days, therefore, he found himself obliged to continue his manipulation of the books, and drew two further cheques, one for £40, which he paid into his own banking account, and another cheque for £100, which he forthwith paid back into the firm's banking account. The cheque drawn for £100 was entered on the credit side of the cash book, ostensibly on account of a ticket account, say, No. 3458.

This cheque, however, was paid into the account, and thus appeared on the debit side of the cash book, but instead of entering it as one item he entered it as two items, one for £40, which he contraed against the cheque for £40, which he had stolen, and one for £60, which was ostensibly paid in on account of tickets payable account, No. 1364, as representing stock returned.

The total defalcation at this point amounts to £100, and ticket payable account, No 3458, is improperly debited with £100, which debit must, within a fortnight at the latest be transferred to some other account.

The cashier, having once embarked on the fraud, could not turn back, nor could he limit the fraud to the modest sum of £100, since if entries purporting to represent stock returned had appeared again and again in the books, and always for the same amount, suspicion would naturally have been aroused. He could not reduce the amount of the fraud, because the money had been spent, and thus the only alternative left to him was gradually to increase the amount of his defalcations.

From time to time, therefore, he drew cheques for small amounts which he paid into his own banking account. He then repeated his previous manipulations by drawing a cheque equal to the accumulated amount of the defalcations, which he entered in his cash book in such a manner as to be posted to the debit of some convenient ticket account.

This cheque he would then pay into the firm's banking account, splitting the item on the debit side of his cash book under two headings, so that one could be contraed against the last cheque which he had stolen, and the other posted to the credit of the ticket account, which it was necessary for him to adjust.

For two whole years the cashier continued to manipulate the ticket accounts in this manner, with a sword of Damocles hanging over his head; until at last, owing to an unfortunate accident, the sword fell.

There are one or two points in connection with this case which require explanation.

In the first place the routine in connection with the ticket accounts was as follows:—

When the transfer was delivered with the ticket it was taken to the cashier, who examined it cursorily, and drew a cheque for the amount appearing on such transfer, and entered the amount in his cash book.

The transfer would then be sent over to the transfer department and thoroughly examined, and if it was in order it would be entered in a tickets payable certificate book, which is a statistical book, and not a book of account.

The cashier would then be notified that everything was in order, and he would hand the cheque to the person who presented the transfer.

If the transfer department, however, discovered any irregularity in the transfer, such as the wrong name, the transfer would be handed back to the jobber, who delivered it for rectification. The cheque, however, having been drawn, signed and entered in the cash book, would be paid into the firm's banking account, the object being to keep the totals of the pass book equal to the totals of the cash book.

In the second place there were many genuine cases of stock being returned, and thus the entries in the tickets payable account did not call for particular investigation.

Thirdly, there were hundreds of perfectly genuine contras in the cash book.

Fourthly, paying in slips instead of paying in books were used; and, lastly, whenever any information regarding any of the ticket accounts was required, the

auditor was invariably referred by the manager to the cashier.

There was only one way of discovering the fraud, and that was by going outside the books of account altogether and seeking some other means of checking the credit balances on the tickets payable account. If this had been done the auditor would have discovered that according to the tickets payable book a greater number of shares had apparently been delivered than had been delivered according to the tickets payable certificate book.

The auditor, however, failed to make this check, but, bearing in mind the fact that at the date of the audit the whole of the outstanding tickets payable accounts open at the end of the firm's financial year had been closed off by cash, I venture to suggest that there was at least one extenuating circumstance which could be put forward on behalf of the auditor.

This case illustrates the fact that it is far more profitable to consider the possibility of applying external checks to the accuracy of the Balance Sheet, than to worry over much about detail.

I would now like to revert to the subject of insurance against loss through negligence, for this is an important matter to the accountancy profession, and it is intimately linked up with some of its tragedies.

I think that every firm ought to insure against this risk, for however carefully one may perform one's duties, the possibility of passing a fraud is ever present. It is, however, useless to insure unless the policy

affords a true indemnity in the event of a claim being made.

Let us consider the difficulties which arise.

It is clear that the accountant against whom a claim is made will wish to satisfy his client's demands at the insurance company's expense, with a minimum of delay and a maximum of privacy; and it is equally clear that the insurance company will wish to minimise their liability as far as possible.

We thus have two parties whose interests are diametrically opposed to one another, each of whom looks at the matter from one point of view only.

The accountant wishes to avoid publicity and to appease his client; while the insurance company very naturally wishes to examine the legal aspect of the case with infinite care in an endeavour to reduce or negative the liability on the ground that the claim does not come within the scope of the policy, or that the client has no case in law against the accountant, or that there has been contributory negligence on the part of the client, or that for some other reason the claim should not be admitted. Thus, it should not be regarded as wholly surprising if the settlement of claims under these policies runs less smoothly than the payment of the premiums.

Let me give an illustration which came before me some years ago.

A partner in a firm of accountants was appointed liquidator to a company, and receiver for the debenture-holders. He realised the assets, and had paid out the first debenture-holder, when, as a result of legal proce-

dings, it was discovered that the debentures were invalid.

He thereupon called on the debenture-holder and requested that gentleman to repay the money which, had been improperly handed to him; but although he met with a courteous reception, and was even offered a cup of tea, he, nevertheless, received a polite but firm refusal on the following grounds:—

1. That the money had been paid under a mistake of law, and, therefore, was not recoverable by legal process.

2. That he, the debenture-holder, had already parted with the money, having himself borrowed in order to subscribe to the original issue of debentures; and that, with the exception of the clothes in which he stood up, he was possessed of absolutely no assets whatsoever.

The receiver thus found himself liable to make good to the company the sum which he had distributed to the debenture-holder.

He notified the insurance company, with whom he had effected a policy of insurance against loss through negligence, and put forward his claim, but the insurance company repudiated liability on two grounds, as follows:—

1. That the policy which was taken out in the name of the firm did not cover a personal appointment of one of the partners, notwithstanding the fact that any remuneration received under this appointment went to the firm.

2. That the office of receiver was not one which fell within the scope of the ordinary duties of a practising accountant.

The insurance company, while not admitting any liability, offered by way of concession a sum amounting to less than one-third of the claim in full satisfaction; and thus the accountant was placed in the invidious position of having to decide whether he should bring an action against the insurance company, or accept the trifling sum offered and bear the balance of the loss personally.

It seems to me that the interests of the profession would be advanced if the Institute of Chartered Accountants, representing their members, were to form a small sub-committee from the members of the Council, to arrange for the taking out of policies, and to assist where necessary in the settlement of claims arising under such policies.

This body would see that the wording of each policy was such as would afford true indemnity against loss. It would choose some first-class insurance company through whom the insurance would be effected; and it would obtain the insertion of a clause in each policy whereby disputes would be referred to the chairman of the sub-committee on behalf of the accountant, and to some other person representing the insurance company, with a barrister, mutually agreed upon by them, as umpire in the event of disagreement.

I submit that under such a scheme there would be great advantage to the individual accountant, since he would not have to worry about the form of the policy, nor would there be any doubt that in proper circumstances claims would be promptly met.

A further advantage of this scheme lies in the fact that if the Institute arranged the insurance of all their members who desired

to come under the scheme, there would arise that strength which inevitably follows unity, and this would automatically prevent insurance companies from putting forward objections which they could not maintain in a court of law. Further, any advice given would take into account the interests of the profession as well as that of the individual.

It is probable that the Institute would be able to obtain a discount from the insurance company, owing to the volume of business which would be introduced from the one source; but even if this were not the case I suggest that it would be true economy for the accountant to pay a small additional premium per annum in order to establish such useful machinery.

It is not always possible to settle claims, nor would it always be wise to attempt to do so, without reference to the Court, since this might encourage unscrupulous persons to make claims which they could not possibly maintain by legal process.

Even as matters stand there is no doubt that advantage is occasionally taken of an accountant's very natural reluctance to risk his reputation by defending an action in the Courts.

We are dealing, however, with tragedies, and so, assuming the case of a Chartered Accountant who finds himself in the position of defendant in such an action, I want to consider what attitude other Chartered Accountants ought to adopt towards their unfortunate brother.

I know it is a difficult question, and that each case must be judged on its own

merits, but I would put forward one or two thoughts on the matter.

First: Although justice must be served, I do not think an accountant should go out of his way to give evidence against another accountant, unless he finds himself bound to do so.

Secondly: Apart from the case of an accountant who is employed by the plaintiff to examine the books and to deal with the facts of the case, I am of opinion that no accountant should profit by giving expert evidence in actions of this nature unless the defendant wins in which case any fees received might, with advantage, be given to the benevolent fund.

Thirdly: The etiquette in our profession is not very pronounced, and we might strengthen it considerably if we stood by one another more consistently.

From fraud and insurance I will turn to executorship work, which is a subject pregnant with possibilities.

We live in a land where a man can, by will dispose of his free estate in any manner that he pleases, and in consequence we meet with instances of mistresses inheriting property that wives should enjoy; of children being decorated with the order of the silver shilling; and of charitable institutions benefitting at the expense of needy and deserving relations.

From the reading of the will to the filing of the residuary account, one gets a glimpse of romance, and it is sometimes difficult to determine whether it is tragedy or comedy that prevails

Even the Revenue Authorities occasionally lend a helping hand. I remember an instance which came to my notice shortly after I started in practice.

A certain gentleman, who during lifetime had made a practice of sleeping in flannel pyjamas, died, and I believe that he was actually wearing those garments at the moment of death.

Now his widow, who was a very pious lady, conceived the idea that every Christian should go to the grave arrayed in white linen, and so she expended the sum of 12s. 6d. in the purchase of a cotton night shirt. This amount was included in the schedule of funeral expenses as a deduction for estate duty purposes, but was subsequently surcharged by the authorities as being in the nature of unreasonable expenditure.

It sometimes happens that carefully-guarded family secrets are disclosed by an examination of executorship accounts. I remember being asked by a family solicitor not to press an inquiry regarding the correctness of the payment of 10 per cent. legacy duty in the case of a bequest by a testator to his brother's daughter, and so I accepted the hint and vouched the payment without further comment.

In dealing with executorship matters, it is amazing how often one comes across cases where sons-in-law assert themselves to the annoyance of everybody concerned in the administration of the estate; and I am strongly of opinion that men with married daughters should protect their executors by declaring in their wills that any interference

on the part of a son-in-law will automatically invalidate the legacy to the daughter.

I knew a man who called on an executor every day for nearly a year to ascertain how much his wife was going to get out of her father's estate, and when she was going to get it.

The great trouble is that these gentlemen so often imagine that an executor must necessarily be a rogue.

The case of a small shopkeeper, who was appointed an executor under a will, comes to my memory, for this individual was nearly ruined by a son-in-law of the testator. This gentleman made himself so unpleasant that an investigation of the trust affairs was ordered by the Public Trustee; and although in the end the shopkeeper was completely exonerated, his business in the meanwhile practically ceased to exist. As a matter of fact the wretched man only sold one set of imitation gold sleeve links, and three gun metal wrist watches during the six weeks occupied by the accountants in their investigation of the trust accounts.

I would like to put forward a suggestion which, if generally carried out, would, I believe, materially increase the volume of executorship work passing through the offices of professional accountants.

The ordinary business man, when making a will, leaves himself far too much in the hands of his solicitor. This is a mistake, and the public should be educated to realise that the combination of the lawyer and the accountant is no less desirable before death than it is after the curtain has finally dropped.

I do not suggest that the accountant should in any way interfere in legal matters, but I do say that it often happens that the man who has given instructions to his solicitors regarding his testamentary intentions, has not the remotest idea of the practical application of those instructions, and that if he had he would wish to modify or revise them.

The duty of the accountant is to explain the various clauses in the draft will by means of simple illustrations. He would draw attention to any matters, such as income-tax and super-tax, which will inevitably arise in the future, and which should be taken into account before the will is finally executed; and he should see that a clause is inserted definitely instructing the executors to employ a professional accountant to deal with the estate accounts.

It is a great mistake to suppose that executorship books can be written up properly by any body who has not an intimate knowledge of executorship law and accounts.

If this course were adopted it would, I believe, avoid many of the difficulties which arise in the administration of estates, and save a great deal of subsequent expense.

From executorship to taxation is a very natural step, for whereas estate duty is undoubtedly a capital levy on the dead, super-tax is rapidly becoming a capital levy on the dying. I am aware that super-tax is legally an additional income-tax, but it is sometimes difficult to persuade one's clients that this statement does not constitute a legal fiction.

I came across a case the other day where the income-tax on the statutory income of an unfortunate man not only absorbed the whole of his actual income, but wiped out his entire capital representing his life savings, and the liability for super-tax the following year left him hopelessly insolvent.

One is reminded of the man who settled a large sum of money in trust for his eldest son.

When the boy heard of his father's gift, he said: "Father, if you wish me to benefit by your generosity, settle the money on someone else, and make me the trustee."

Taxation is to a large extent a battle of wits. The authorities labour to keep their net in good repair, while the fish are always seeking a hole through which they may escape. Both have a measure of success and failure, and thus it is that the game produces comedy, tragedy, and romance.

Both fail for precisely the same reason—they go too far; but as in sport, the penalty for failure is greater for the fish than for the angler.

Let me give one or two illustrations of success and failure.

The Finance Act, 1916, introduced legislation to enable the authorities the more easily to tax a non-resident in the name of a resident agent.

This was a genuine effort to remedy an undoubted evil, and as it involved the laudable intention of taxing the foreigner it did not meet with the opposition it deserved.

Among the first whom the authorities attempted to bring under this section were a few of the more enterprising of the Belgian refugees.

These gentlemen acted as agents for some of the Congo produce companies, and the Revenue at once thought that they saw an opportunity of taxing the foreigner in the name of the agent. The Congo companies, however, objected, and sold their produce to America; and the Belgian agents, realising the impossibility of trading under such adverse conditions, ceased working together, and threw themselves unreservedly on our hospitality.

Subsequently America resold the produce to us at three times the price.

The silver in the world is produced in the West and consumed in the East, and for some inexplicable reason it all passes through the hands of agents in this country. This fact affords another theoretical opportunity to tax the foreigner, for surely the rich owners of the silver mines can bear a little squeezing.

Strange as it may seem, however, the mine owners refuse to be squeezed, and if we attempt the operation we shall see the silver of the world going East, via the Pacific, and we shall also see a chain of American agents replacing the present chain of British agents, each of whom makes some little profit from handling the bullion.

The Revenue Authorities boast that they tax the foreign meat importers, but I venture to suggest the price of frozen beef is adjusted so as to throw the burden of the tax on the consumer rather than on the producer.

To tax the foreigner is a good election cry, but in practice it is nearly always impossible.

We try again and again, just as we are still trying to extract an indemnity out of Germany, but we fail every time, as we shall fail in the matter of the indemnity, and we lose directly and indirectly every time we attempt to carry the scheme into effect.

The fish recently gained two very notable victories in the case of *Stevens v. Boustead* and *Brown v. The National Provident Institution*, and for a short while they basked in a glorious sunshine, but owing to subsequent counter-efforts on the part of the angler, the source in both cases has now dried up.

Had I time I would turn from taxation to company work, for I know of no class of work, with which an accountant is associated which is more closely wedded to romance.

I have seen a wilderness blossom forth into a gold mine which, proving a failure, at once became a rubber plantation; and I have also seen many other wonderful and ingenious efforts on the part of company promoters.

My time, however, is expended, even as your patience is exhausted, and, therefore, I conclude by remarking that we are members of a very wonderful profession which has great possibilities before it. The scope of our activities is expanding each year, and will continue to expand, and it only remains for us to see that the prestige of the profession rises correspondingly.

If we are interested in our work we shall find romance at every turn, but if we fail to find romance we may be sure we have mistaken our vocation. Under such circumstances it would be better far to turn from figures and seek consolation on the harmonium.

The Accountant.

Banks and Credit.

MANY MISTAKEN IDEAS.

THE CASE FOR THE BANKS:

The public has been induced by some exponents of economic thought to hold a very exaggerated idea of the functions carried out by the banks and the power they possess. There is some excuse for falling into this error, as the ordinary business transactions of producers, manufacturers, and traders are known only to themselves. This is in contrast to banking business, which receives wide publicity through the publication of Clearing House transactions, quarterly averages of assets and liabilities,

balance-sheets, and profit and loss statements.

For example, it is not generally realised that though the banks are, of necessity, very important factors in the monetary and credit structure of the country, they exercise only a limited influence over the ever-moving volume of credit, which the vast number of individuals and concerns engaged in industry and commerce carry on in the form of book debts and bills of exchange and promissory notes in varying amounts and on varying terms. Neither do the banks control com-

pany capital, obtained by share issues to the public, or by debenture or bond issues, or money lent on private mortgage, or otherwise outside the banking system.

So it may be said that the main credit system of the country is largely independent of the banker, and that he comes into the picture in a secondary position. The mustard-maker was said to live on the portion of mustard left by diners on their plates. Similarly, banks may be said to live on that portion of accumulated capital which people do not want for direct use or investment at the moment.

The theory, advanced so confidently by some people that every bank loan creates a deposit is only partly true, and then only when restricted to a closed system; that is, one having no contacts with the banking systems of other countries. But the Australian System is linked with that of England and other countries, and a bank loan obtained here might be used to buy securities abroad, and thus, on many such transactions, add nothing to the aggregate bank credit here. Or it may be used here to cancel a debt to a bank, or to buy Government securities from a bank. If the amount borrowed were taken in cash, it might be hoarded or be kept in circulation for some time before it returned to the banking system.

CONTROL OF AVAILABLE MONEY.

The statement that 'banks create credit' and that consequently, the banks control the quantity of available money, and thus possess an inordinate influence on industry

and prices has been made so often and with such insistence that it seems necessary to make somewhat full reference to that feature of banking.

Dr. Walter Leaf, a well-known English authority, out of his great experience of banking and commerce, wrote as follows:

"It is important to insist upon the fact that the banker's business is founded on his deposits, and limited by them, because a fashion has grown up lately of regarding the joint-stock banks as 'creators of credit.' They are, of course creators of credit in the sense in which every lender, even the kind hearted man who gives a 'little loan' of 5/- to a needy friend, is a creator of credit. But this is not what is meant. By using an ambiguous phrase, it is meant to imply that the 'banks'—meaning joint-stock banks—can increase to an unlimited extent the amount of credit current. In this sense the idea is plainly untrue. The State is a creator of credit in that sense, because it can not only create paper currency to an unlimited extent, but, by making legal tender, can force it into the hands of everyone to whom it owes money. But this power, as we have seen, has been withdrawn from all banks in England. The banks can lend no more than they can borrow—in fact, not nearly so much. If anyone in the deposit banking system can be called a 'creator of credit' it is the depositor; for the banks are strictly limited in their lending operations by the amount which the depositor thinks fit to leave with them."

BANK'S BUSINESS: Investigation of ordinary every-day business shows that right through the chain of economic processes which

begins with the primary producer and ends with the consumer, credit is given—sometimes in money, but mostly in goods. In most transactions where payment is not on a cash basis, the sellers have delivered goods in exchange for a promise to pay in the future—they have parted with their goods without obtaining either money or capital in return. It is at this point in many credit transactions that the banker is asked to entrust the sellers with an amount of money, which may be equal or nearly equal to the amount of the postponed payment. The bank does this out of its own resources or out of those entrusted to it.

In passing, it may be well to note that the prices of goods sold on credit include interest though that item may be hidden in the price. In exchange for the interest the bank takes over the inconvenience which attaches to the deferred payment.

The first condition necessary for the use of or the extension of credit is the existence of saved capital. Only the manufacturer who has surplus capital can afford to grant credit to his buyers. If he turns to a bank for the credit, it is because the bank has been entrusted with the saved capital of its depositors and its shareholders, to be used for that purpose.

The statement that "banks create credit" might as well be reversed to read "credit creates banks." Certainly it is an equally open question as that old conundrum about the chicken and the egg.

When a bank does add to its total deposits by granting a loan, it is only one party to the proceeding. It must have the willing

co-operation of the borrower and the depositor. Further, and most important, there must be a prior accumulation of capital, either in goods or other property.

Reserves. If the banks really could create credit there should be no limit to the possibilities in that direction. In actual practice there are very definite limits to the amount of advances a bank can make, and, if these are overstepped, grave risks of inability to meet demands are incurred. In practice it has been found in Australia that if a bank maintains in cash and other equally liquid resources a reserve of about 15 per cent of the aggregate of its deposits, it is able to retain the confidence of the public and to maintain its total deposits.

This limiting factor is in constant operation. Allied to it is the general condition of production and trade in the community and the capital position of the country as a whole. Consequently, there is a limit beyond which the sum total of bank loans cannot safely be allowed to expand. It is extremely difficult to determine this limit, but it is undoubted that if the total gets too high, public confidence commences to be weakened, and an effort is made to withdraw bank balances and purchase other forms of security, either within or outside the country. Experience shows clearly that more evils result from excessive use of credit—that is of borrowing—than from restrictions upon the granting of loans.

The main functions of a bank may be viewed in various ways.

From one viewpoint, it appears mainly as the collector, the gatherer together, of all

the small quantities of floating capital belonging to the masses of the people. The bank organises this credit, and the banking system is a natural evolution of the movement to save capital in modern society. If there were no money or credit, capital could not be saved excepting in the form of commodities. Credit, however, would be of little importance and of small extent if there were not great quantities of capital saved in the forms of machinery, live stock, goods, improvements on land, buildings, etc., upon which it might operate.

From another standpoint it may be said that the banks distribute a lubricant to business, in the form of credit, when and where and how it is needed and can best be used to assist production and trade. In this way the banks supply means of buying and producing, and provide a profitable investment for funds which many people would not or could not invest in a more direct fashion.

MODERN CREDIT. The modern credit system makes available supplementary Capital for carrying on business activities. For all producers it represents a gain of time, and therefore of money. Working through the banking system, credit enables capital

to be moved from one trade to another or from one country to another. And credit itself is "the transfer of something valuable to another, whether money, goods, or service, in the confidence that he will be both willing and able, at a future day, to pay its equivalent."

The banker's parts in the organisation of credit is indicated above. His care in its operation is stated in striking words by Charles A. Conant in his "Principles of Money and Banking".

"The banker is the guardian of a mechanism whose derangement means serious embarrassment, and perhaps ruin, to every member of the community. It is enjoined upon him, therefore, to so employ the capital of which he is the custodian as to extend the greatest possible aid to those enterprises which promise the greatest sum of economic benefits, while taking extreme precautions, as trustee for the members of the community, that he shall ever be unable to fulfil exactly and without grace all the contracts which he has made to deliver money."

Commercial Australia.

The All-India Economic Conference, January 1934.

SOME IMPRESSIONS.

(BY AN OBSERVER)

The recent economic conference held in Annamalai Nagar, was of importance in more respects than one. The subjects discussed were not of mere academic importance. On the other hand the problems have been

debated in the platforms almost every day. The problem of population which was discussed by the conference was of great value to the lay public who had not the advantage of knowing the opinion of expert

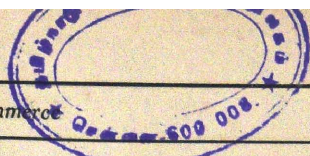
economists. Co-operation, which unfortunately, in recent years, has become practically a broken reed was another subject for discussion. Again the recent developments in monetary theory and also the prospects of a planned economy made the conference of greater practical importance than the previous ones. Nor was the conference merely composed of theoretical economists. The representation in the recent conference was more occupational than territorial. There were Registrars, Deputy Registrars, both past and present along with non-official workers in the Co-operative movement; there were again professors of economics from various universities; considerable practical turn was given by the presence of some commercial magnates. Thus the conference was of particular importance not merely on account of the subjects but also on account of its representative character.

Its dignity was considerably enhanced by the presence of Dr. Robertson, the great British economist who is now in India in connection with the prospective economic survey. Himself a thin and tall figure, Mr. Robertson was perhaps the most impressive personality in the conference. All eyes were upon him on the second day of the conference when Dr. Robertson appeared before it. His presence was throughout of immense disciplinary value for nobody was bold enough to talk at random, especially when such a great scientific economist was present. The one person from whom all were anxious to hear was Robertson. But to the disappointment of all, he declared that he was there not to teach but to learn. The talk he gave was

tantalizing in its brevity. But the presence of a man of his repute considerably enhanced the level of discussion.

Next to Robertson only in importance was Prof. Thompson, the president of the conference. His presidential address was certainly something remarkable. It revealed the anxiety of the president to keep economics within its scientific moorings. Throughout one could see the zeal and sincerity of the president in the economic reconstruction of India. He was not one of those that claimed to become young as some of the old cronies in Madras. Nor did he pretend to be a master of every aspect of economics. Whenever the subject discussed was beyond the range of his study, he never hesitated to confess that he was not posted with adequate information. Prof. Thompson proved to be an ideal president. He was a monument of patience. Without the calling bell, he was able to make the speaker feel that the time was up by the contortions of his face. He had the shrewdness of a diplomat in keeping speakers that trespass into politics within bounds. Next only to Dr. Robertson, Thompson was perhaps the most observed of all personalities.

Prof. V. G. Kale of Fergusson College was the least pretentious of men that were in the conference. He needed no introduction to any, for his brilliant publications were responsible for the degrees of many in the conference. Absolutely modest and transparently sincere, he never made any feel his superior position. Moving with young and old alike, he became soon the object of veneration of all members. The



trouble he took to prepare the papers made every young economist feel ashamed of his own indifference or laziness. He was not anxious to speak but when he spoke, he spoke something valuable and it was always attended with rapt attention. He did not trespass the time allotted although it was wellknown that Prof. Thompson included him among the small circle to whom no time limit was set.

Prof. Jain of the Punjab University was the prize boy of the conference. His recent publication, indigenous banking, was perhaps responsible for it. There was hardly any from North India who would not mention his name or take an opportunity to make use of his name. Prof. Jain himself impressed the members of the conference as a well-read man. With numerous books to quote from, he showed that he never believed in making indifferent speeches. But the younger members of the conference looked with envy when the president allowed Dr. Jain to read his paper which was neither published in the conference book nor again printed separately. It was a wonder, how a paper, perhaps prepared on the previous night or some hours earlier was allowed to be read. To speak the truth, there was nothing extraordinarily original to deserve such special treatment. The Registrar of co-operative societies, Bombay Presidency, Mr. Punjaby delighted the audience with his up-to-date dress and suavity of manners. If Robertson came with a deliberate idea of learning, he seemed to have come with the deliberate idea of keeping mum. His presence however gave

to the papers on co-operation, a certain inspirational value and the president with his extraordinary persuasive capacity succeeded in making Punjaby stand on his legs for a few minutes. While it was the discomfort of many to ask for more time, it appeared to be the discomfort of Punjaby to go up to the time allotted. He had come with his official staff too. The presence of an I. C. S., officer like him lent a beaurocratic tinge to the otherwise an entirely democratic and non-official body.

Prof. C. N. Vakil the secretary of the Conference was a lovable personality. He never ceased smiling. He was perhaps the best secretary that any conference could think of. He attracted young and old and like an insurance agent, succeeded in bringing into the fold of the economic association new members. Even in the conference he played the teacher. Fluent and convincing were his arguments. He showed his extraordinary anxiety to get the conference recognised by the government. It was remarked even on the second day that he was the proposed president of the economic association. He showed clearly that he deserved this honour more than anybody else. Mr. K. B. Madhava of Mysore University showed an extraordinary zeal for mathematics. He never lost an opportunity to impress upon the audience assembled that mathematics was the be-all and end-all of economics, if not of life. But Mr. Madhava's argument, however convincing it was, could not be followed by all. His talks on logistic curves and logarithms created admiration. He showed clearly

that he was one of the most sincere and honest workers in the cause of India's economic uplift. Many others, there were, but space forbids me to add anything about these representatives. Omission should not, however, be made of Dr. V. S. Ram, Head of the Department of Political Science, Lucknow University. On the opening day of the conference, he was perhaps the most observed of all people. Short and stout, he appeared wonderful with his laced gown.

There was hardly any person with whom Dr. Ram did not talk and his activities outside the conference were indeed more than those inside. He forced his personality aggressively on all people by going out and coming in often when the proceedings were getting along. He had an extraordinary love for betels, and never lost an opportunity to smoke. There was hardly any who did not admire his genial personality.

Central Board of Revenue.

NOTIFICATIONS.

INCOME-TAX.

The 9th December 1933.

No. 46:—The following draft of certain further amendments to the Indian Income-tax Rules, 1922, which the Central Board of Revenue proposes to make in exercise of its powers under subsection (1) of section 59 of the Indian Income-tax Act, 1922 (XI of 1922), is published as required by sub-section (4) of the said section for the information of all persons likely to be affected thereby and notice is hereby given that the said draft will be taken into consideration on or after the 15th January 1934.

Any objection or suggestion which may be received in respect of the draft before the date specified will be considered by the said Board.

Draft Amendments.

1. After rule 8 of the said Rules the following rule shall be inserted, namely:—

“8-A. Allowances under section 11 (2) (ii) of the Act in respect of depreciation of buildings, machinery, plant or furniture shall be in accordance with the rates prescribed in the statement attached to rule 8; and in respect of apparatus, appliances or other capital assets not covered by that statement, the allowance shall be at the rate of 5 % per annum on the prime cost”.

2. After rule 9 of the said Rules the following rule shall be inserted namely:—

“9-A. For the purpose of obtaining an allowance for depreciation under section 11 (2) (ii) of the Act, the assessee shall furnish particulars to the Income-tax Officer in the form included in rule 9, entering in columns I and 4 references not only to buildings, machinery, plant or furniture but also to apparatus, appliances and other capital assets.”

RAM• NATH,

Secy, Central Board of Revenue.

CENTRAL BOARD OF REVENUE.

NOTIFICATIONS.

Income-Tax.

New Delhi, the 23rd December 1933.

No. 50:—In exercise of the powers conferred by sub-section (1) of section 59 of the Indian Income-tax Act, 1922 (XI of 1922), the Central Board of Revenue directs that the following further amendments shall be made in the Indian Income-tax Rules, 1922, the same having been previously published as required by sub-section (4) of the said section, namely:—

(1) In rule 21 of the said Rules:—

(a) For the words and letter "in Form D." the words, letters and figure "in Form D; in the case of an appeal against a refusal of an Income-tax Officer to register a firm under section 26 A, in Form D-1" shall be substituted.

(b) After Form D, the following Form shall be inserted, namely:—

FORM D-1.

Form of appeal against an order refusing to register a firm under section 26-A.

To

The Assistant Commissioner of
The day of 19 .
The petition of of post
office, District sheweth as follows:—

Under section 26-A of the Indian Income-tax Act, 1922, your petitioner applied to the Income-tax Officer.....

.....for the registration of the firm
.....By his order dated the
a copy of which is herewith attached, the
Income-tax Officer has refused to register the
said firm.

Your petitioner therefore requests that the order of the Income-tax Officer may be set aside and that he may be directed to register the firm.

Signed,

Grounds of appeal.

Form of verification.

I the petitioner, named in the above petition do hereby declare that what is stated therein is true to the best of my information and belief.

Signed"

(2) After Rule 21 of the said Rules, the following rule shall be inserted, namely:—

"21-A. An appeal under section 50-A shall be in the following form:—

Form of appeal against an order refusing to grant a refund under section 48, 48-A or 49.

To

The Assistant Commissioner of
The day of 19 .
The petition of of post
office, District sheweth as follows:—

Your petitioner applied to the Income-tax Officer for a refund under section 48/48-A/49 of the Indian Income-tax Act, 1922, of Rs. . The Income-tax Officer has by his order dated the of which a copy is attached rejected the application.
granted a refund of only Rs.

Your petitioner therefore requests that the order of the Income-tax Officer may be set aside and the refund asked for may be granted.

Signed."

Grounds of appeal.

Form of verification.

I the petitioner named in the above petition do declare that what is stated therein is true to the best of my information and belief.

Signed.

(3) After Rule 42 of the said Rules the following rule shall be inserted, namely:-

"42-A. A return shall be furnished by the person responsible for paying interest not being interest on securities, in respect of amounts of interest or aggregate interest exceeding Rs. 1,000".

(4) After Rule 43 of the said Rules the following rule shall be inserted, namely:-

"43-A. The return under section 20-A shall be in the following form and shall be delivered to the Income-tax Officer in whose

jurisdiction the person responsible for paying interest resides:—

Return under section 20-A of the Indian Income-tax Act, 1922, for the year 1st April 19 to 31st March 19 .

Name of payer.

Address of payer.

Serial No.	Name of payee,	Address of payee,	Date of payment.	Amount of interest or aggregate interest.

I hereby certify the above statement contains a complete list of persons to whom interest or aggregate interest exceeding Rs. 1,000 was paid during the period 1st April 19 to 31st March 19 .

Signature."

REGISTRATION OF ACCOUNTANTS.

The 23rd December 1933.

No. 7 (17)-T. & E. (R. A.)—In pursuance of rule 29 of the Auditor's Certificates Rules, 1932, it is hereby notified for general information that the First Examination under the said rules will be held on the 19th, 20th, 22nd and 23rd March 1934, at 2 P. M. every day. The examination will be held at each of the following centres at which sufficient candidates present themselves for examination:—

1. Bombay,
2. Calcutta,
3. Madras,
4. Rangoon,
5. Lahore,

6. Bangalore and
7. Delhi.

Additional centres may be appointed should circumstances render such a course desirable.

2. Applications for admission to this examination are required to be made on the prescribed form, copies of which may be obtained from the Secretary to the Government of India in the Department of Commerce, New Delhi. Every such application together with a fee of Rs. 30 and the necessary certificates, must be sent so as to reach the Government of India not later than the 15th of January 1934.

T. A. STEWART,

Offg. Secretary to the Government of India.

Fort St. George, December 15, 1933.

[G. O. No. 4082, Law (General).]

No. 899.—The following draft of certain amendments to the Madras Partnership (Registration of Firms) Rules, 1932, published with Law (General) Department Notification No. 868, dated the 1st December 1932, at pages 1925-1928 of Part I of the *Fort St. George Gazette*, dated the 13th December 1932, which the Governor in Council proposes to make in exercise of the powers conferred by sub-section (2 of section 71 of the Indian Partnership Act, 1932 (IX of 1932), is hereby published as required by sub-section (3) of the said section for the information of all persons likely to be affected thereby. Notice is hereby given that the draft will be taken into consideration on or after the 1st March 1934. Any objection or suggestion which may be received from any person with respect thereto before the date aforesaid will be considered by the Governor in Council:—

DRAFT AMENDMENTS.

1. After rule 7 of the said rules, the following shall be inserted, namely:—

"7-A. The Registrar's powers of inquiry and investigation.—The Registrar may, in case of dispute, institute such inquiries or make such investigation as may, in his opinion, be necessary for the proper performance of his duties under the Act."

2. For rule 10 of the said rules the following rule shall be substituted, namely:—

"10. Filing of documents.—(a) The Registrar shall examine every statement, intimation, notice or other document received by him which is required by the Act to be registered, recorded or filed and if he finds any such statement, intimation, notice or other document to be defective or incomplete in any of the particulars required by the Act or these rules, he shall return it to the party or firm tendering it, for due rectification or completion and until such statement,

intimation, notice or other document is so rectified or completed, he shall not register, record or file the same.

(b) No statement, intimation, notice or other document, in respect of which a fee is payable shall be registered, recorded or filed by the Registrar until the fee has been paid to him and the Registrar shall, pending such payment, act as if no such statement, intimation, notice or other document has been tendered for registration, record or filing.

(c) A separate file shall be maintained in respect of each firm in which all documents relating thereto received from time to time by the Registrar shall be filed."

3. For rule 15 of the said rules, the following rule shall be substituted, namely:—

"15. Preservation and elimination of registers and records.—(a) The register of firms and the index thereto shall be preserved permanently.

(b) All other records, including the statements referred to in section 58 of the Act, may be destroyed—

(i) in the case of a firm which has been dissolved, on the expiry of five years from the date of its dissolution; and

(ii) in the case of a firm which, though not dissolved, has not been transacting business and has not been heard of for a period of not less than seven years, in accordance with and subject to the provisions of sub-rule (c).

(c) In cases falling under clause (ii) of sub-rule (b), the Registrar shall publish in the *Fort St. George Gazette* and at the same time send by *registered post* to each of the partners of the firm concerned to his last known address, a notice stating that the records and statements relating to the firm will be destroyed unless cause is shown to the contrary within a period of three months from the date of publication of the notice in the *Fort St. George Gazette*. If cause is not shown as aforesaid, the records and statements may be destroyed."

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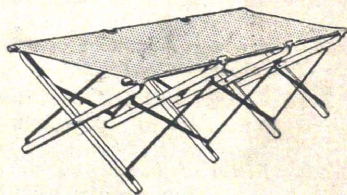
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